

WILLCOX & SAVAGE

# TECH LAW L E T T E R



## LICENSING: ISSUES AND ANSWERS

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Are you an intellectual property ("IP") licensee? Yes, almost certainly. For example, you are a licensee of computer software or hardware if you own a laptop or personal computer, a cell phone, or even a late-model car, which means just about everyone these days. A licensee is simply someone who has permission (a license)

from the owner of IP, such as copyrights, patents, or trademarks, that is required to do something with that IP. That "something" is most often to use the licensor's IP, but it could also be to copy it, modify it, or sublicense it to others.

A license differs from an assignment in that whereas a licensor grants some but not all of its rights in certain IP, an assignor grants all of its rights in that IP. In other words, an assignor transfers ownership of the IP to someone else, but a licensor merely lets someone "borrow" some of the licensor's rights for a while (or indefinitely). However, some licenses — for example, those often granted by contractors to the U.S. government — grant such broad rights that they are tantamount to an assignment.

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### IP Seminar on February 1

*If you are a Government Contractor, who owns your IP Assets...You or the Government?* Critical commentary about these issues will be presented by attorneys Tim Lockhart and Kevin Grierson, with special panelists from local Defense contractors and agencies. This complimentary seminar will be held on February 1 at the Hampton Radisson, between 8:00 a.m. and 10:00 a.m. Register at: [www.willcoxandsavage.com/nep/seminars.php](http://www.willcoxandsavage.com/nep/seminars.php)

## IMPORTANT CHANGES IN U.S. TRADEMARK PROCEDURE

**Kevin W. Grierson**



The United States recently became a party to an international intellectual property agreement known as the "Madrid Protocol" that has caused significant changes in U.S. trademark procedures. The Madrid Protocol makes it easier for U.S. trademark owners to protect their marks in other countries that are parties to the agreement, but it also

requires them to do certain things differently in their U.S. trademark applications even if no trademark protection is sought outside the United States. Here are two of the more important Madrid-driven changes in the procedures of the U.S. Patent and Trademark Office ("PTO"):

**"Standard-Character" and "Special-Form" Requirements.** "Word marks" are trademarks consisting of one or more words without any design or "logo" elements. Previously, a U.S. trademark owner that did not wish to claim any special features (font size, lettering style, color, etc.) of a word mark, did not have to specify that position. In the absence of a claim of special features the PTO simply assumed that the trademark owner was claiming the word mark in the form of black block letters — what was referred to as a "typewritten drawing" of the mark. The appearance of a mark in which special features were claimed was referred to as a "formal drawing."

To comply with the Madrid Protocol, however, the PTO now requires the owner of a word mark to specify whether or not it claims special features such as font size, lettering style, or color. If no such features are claimed, the trademark application should expressly say so and, in a hardcopy vice electronic application, refer to the appearance of the mark in the application as a "standard-character drawing." Similarly, if such features are claimed, the application should state that fact expressly and refer to the appearance of the mark in the application as a "special-form drawing."

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## LICENSING: ISSUES AND ANSWERS

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Licenses can be “inbound” or “outbound.” Someone with an inbound license is a licensee (or perhaps a sublicensee), and someone with an outbound license is a licensor. Are you a licensor? Sure, if you have ever given anyone (other than an employer) permission to use a photograph that you took, a drawing that you made, or text that you wrote.

In fact, all types of IP can be licensed:

- Patents (inventions, including business methods);
- Copyrights (software, photographs, artwork);
- Trademarks/service marks (best example: a franchise like McDonald’s);
- Trade secrets (confidential business information — but such licenses are relatively rare); and
- Even the right of publicity (Elvis lives!).

As you can see, license grants are very common legal transactions. No written agreement is required between licensors and licensees, although in commercial contexts it is almost always a good idea to have one. (Please note, however, that a written agreement is required to make some IP assignments binding — copyright assignments, for example.)

Written licenses are of various types:

- Form contracts (for simple, standard transactions, such as when a commercial photographer or graphic artist grants a license to a client);
- Negotiated agreements (often for software development);
- Shrinkwrap (for commercial, off-the-shelf software, or “COTS”); and
- Clickwrap (often used with downloaded software).

Moreover, licenses can be express or implied. An express license is one that says, in effect, “I hereby license you to use this IP.” In contrast, an implied license is one that suggests “I know you’re going to use this IP, and I don’t object.”

Licenses often have many different terms, some of which are more important than others. For example, is the license to be exclusive or nonexclusive? Perpetual or time-limited? Irrevocable or revocable? Royalty free or royalty bearing?

The most important terms — sometimes the “deal breakers” — are each party’s representations and warranties, indemnification, and limitations on liability. But other terms are also important: geographic territory; grounds for termination; effect of termination; who owns new intellectual property; who can enforce the license; who pays for such enforcement; and who pays for reg-

istration, recordation, etc. The key financial terms of a royalty-bearing license are the rate and payment provisions, of course, but tax implications and international aspects should be considered as well.

Likewise, termination provisions are quite significant. Will termination for cause result in litigation, arbitration, or mediation? Where and under what rules? Who will pay for such proceedings, including attorneys’ fees and expenses? Note that although arbitration or mediation can be a good way to resolve disputes over IP licenses, at least one arbitrator or mediator should be knowledgeable about the relevant technology or industry.

### FIRM TRADEMARK PRACTICE INCREASES OVER 300%

Willcox & Savage’s trademark practice grew rapidly in 2004. This major expansion included the Firm’s first trademark applications in Canada and the European Union. In addition, the Firm is now advising clients in Brazil, Chile, Colombia, Denmark, Germany, Puerto Rico, Sweden, and the United Kingdom on U.S. copyright, patent, and trademark matters.

And there are even more things to think about, especially with software licenses. For example: training, support, maintenance, new versions of the licensed IP, potential bankruptcy of the licensor, technology escrow, and assignment.

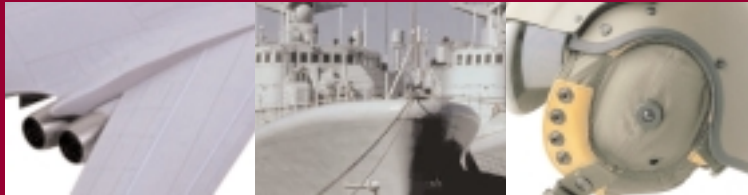
Although the agreements themselves can be quite complicated, the secrets to ending up with good licensing agreements are actually very simple:

- Use a “term sheet” to capture the parties’ oral agreement to key terms during preliminary negotiations (and remember that the format of such a summary of agreed-upon terms is less important than the content);
- Agree on as many key terms as possible before preparing or even reviewing a written contract;
- Try to retain drafting right for yourself — it’s actually less expensive in the long run;
- Use an appropriate license checklist; and
- Know the standard practices licensing practices of the relevant industry.

The bottom line is that licensors need to protect their IP ownership rights; licensees need to ensure the adequacy of their licensed rights; and neither side wants to assume unnecessary risk. Although common legal instruments, licensing agreements can be very complex, so it is important to seek sound legal advice at the outset of a licensing transaction and follow it throughout the negotiation of an appropriate written contract. ■

INTELLECTUAL PROPERTY SEMINAR

# If you are a Government Contractor, who owns your IP assets...



## You or the Government?

*Learn how Department of Defense and Intelligence Community contractors can ensure their valuable intellectual property assets are protected. Critical commentary will be presented by the following speakers and panelists.*

*Jack Ezzell, Jr., Zel Technologies, LLC*

*Michael Kimener, Booz Allen Hamilton*

*Jerry Robertson, ODU Technology Applications Center*

*Damien Walsh, U.S. Joint Forces Command*

*Tim Lockhart and Kevin Grierson, Willcox & Savage*

*Seating is limited for this informative and free seminar.*

Tuesday, February 1, 2005

8:00-10:00 am at the Hampton Radisson

700 Settlers Landing Road in Hampton, Virginia

Breakfast will be available at 8:00 am, program starts at 8:30 am

Register at: [www.willcoxandsavage.com/nep/seminars.php](http://www.willcoxandsavage.com/nep/seminars.php) or call (757) 628-5635.

Registration is required as space is limited.

Confirmation of your registration acceptance will be made prior to the event.

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## CHANGES IN U.S. TRADEMARK PROCEDURE

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If these rules are not followed, the PTO will likely issue what is called an "Office Action" that requires the applicant to clarify the situation with respect to standard or special features of the mark. Accordingly, it is important to ensure that the appropriate claim as to special features is made in a trademark application.

### Firm To Host Winter INTA Roundtable

The Intellectual Property Practice of Willcox & Savage is proud to host once again the Hampton Roads Roundtable of the International Trademark Association ("INTA") at the Harbor Club on February 24 at noon. This session will focus on protecting the brand. The October and June sessions were favorably received, and we are pleased that these Roundtables continue to gain momentum in the Hampton Roads marketplace. INTA is the world's largest trademark organization, and consists of 4,500 trademark owners and professionals from over 180 countries. For more information about INTA, or to register for the upcoming Roundtable, visit the association's web site at [www.inta.org](http://www.inta.org).

Because this rule is new, the PTO itself is still getting used to it and does not always indicate in its filing receipts for trademark applications whether the appropriate statement was made. Thus, it is also important to check each filing receipt from the PTO to ensure that the appropriate statement is indicated on the receipt.

**Color Marks.** Before the implementation of the Madrid Protocol, filing a U.S. trademark application in which color was claimed as a feature of the mark required the applicant to create a special black-and-white drawing with specific patterns of lines to represent different colors. Under Madrid the PTO will accept a colored drawing for a color mark but requires that the applicant describe, in words, how the color or colors are arranged in the mark. However, applicants should be careful not to show a mark in color unless they use or intend to use the mark in that color scheme, claim the color(s) as a feature of the mark, and do not plan on changing color(s) at some point in the future.

**Other Important Rules Changes.** Although they are not related to the implementation of the Madrid Protocol in the United States, two other changes or potential changes in the PTO's rules should be noted.

First, for the last few years the PTO has been somewhat haphazard in its approach to sending Office Actions and other communications by e-mail. For example, if an applicant list-

ed an e-mail address in an application, the PTO might send an Office Action by e-mail or it might send it by surface mail, i.e., "snail-mail."

Now, however, the PTO will not send any correspondence by e-mail (even though using e-mail is the PTO's strong preference) unless the trademark applicant or registrant has (1) provided an e-mail address and (2) expressly stated in a writing to the PTO that the PTO is authorized to communicate with the applicant or registrant, either directly or through counsel, by e-mail. Obviously, it is important for trademark applicants and registrants to ensure that the PTO always has a valid e-mail address for them or their counsel. To that end our Firm has a special e-mail address that is used only to receive communications from the PTO, is accessible by several individuals within the firm at all times, and is never changed.

Second, the PTO currently requires that any electronic images (such as for drawings of marks or specimens showing marks as used) be submitted to it only in jpeg format. Having been designed specifically for file compression, the jpeg format is particularly unsuited for black-and-white images or plain text, as the creation of a jpeg image with black text often results in stray dots and blurry lines for the text.

The PTO has received many complaints about its jpeg requirement. In response, the PTO has waived the current size requirements for electronic specimens and has indicated that it is investigating the feasibility of accepting other electronic formats, such as bitmap images or pdf documents. ■

WILCOX & SAVAGE

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## RULES GOVERNING THE SALE OF ENCRYPTION SOFTWARE

Kevin A. White



Encryption software works by coding computer data such as e-mail messages into a form such that only a person who has access to the encryption algorithm can decrypt and understand the data. In the private sector encryption is widely used by banks and for online payments in e-commerce, but the U.S. government also uses encryption to secure military, diplomatic, and intelligence information.

The U.S. government is concerned that widespread use of encryption will endanger national security by making it more difficult for military and law-enforcement officials to monitor communications among suspected terrorists, drug cartels, and other threat networks. As a result, the government has enacted rules governing the sale of encryption software, particularly applying to the export of such products.

### Selling Within the United States and Canada

The U.S. government does not place any restrictions on the sale of encryption software within the United States or from the United States to Canada. The seller is not even legally required to post any notice on the product or obtain any authorization from customers. Nevertheless, it is advisable for a seller to take steps to prevent the software from falling into unauthorized hands. It is also advisable for a seller to inform his customers that export of the product may be subject to export controls, so that the seller likely cannot be held liable for a customer's violations of federal law.

A seller of encryption software should make sure to place the following notice (or words to its effect) on packaging and/or license agreements with customers:

**Notice.** *This product may be subject to U.S. export controls. The export of this product may require licenses and/or advance authorization from the Department of Commerce or Department of State.*

In addition, the seller should consider taking extra precautions. Although no formal acknowledgment from the customer is legally required, the seller should nevertheless ask for the following acknowledgements: (1) that the customer is a U.S. Citizen or legally resides in the United States; and (2) that the customer understands that the product may be subject to U.S. export controls.

Note that while the "deemed export rule" formerly applied to the sale of encryption software, it no longer does so. Therefore, sales to foreign nationals legally residing in the United

States who return to their native countries with the encryption software do not create "deemed exports." Still, the seller should be cognizant that this rule may be enforced in the case of customers from certain countries that have been known to support terrorism, *i.e.*, Cuba, Iran, Iraq, Libya, North Korea, Sudan, and Syria. Further, the seller should keep on hand copies of the U.S. government's List of Denied Persons and List of Denied Entities and make sure not to sell to them. Those lists can be accessed at the following web-sites:

- <http://www.bxa.doc.gov/dpl/Default.shtm>
- <http://www.bxa.doc.gov/Entities/Default.htm>

The seller should also peruse the "Know Your Customer Guidance" site on the Department of Commerce webpage:

- <http://www.bxa.doc.gov/Enforcement/knowcust.htm>

Finally, if it plans to sell encryption software over a website for purchase by download, the seller should configure its system to check the Internet Protocol address of each product requester to ensure that the requester's address does not originate in a foreign country and is not a foreign government domain name.

### Selling Outside the United States

The degree of compliance required to export encryption software varies based on both export destination and bit strength. The regulations are least strict on exportation to the 25 European Union ("EU") countries plus Australia, Japan, New Zealand, Norway, and Switzerland. Although no license is required for exportation to those countries (except

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### Hampton Roads Recognized as Digitally Savvy

The Center for Digital Government announced its results of its third annual Digital Cities Survey. Underwritten by Oracle, the Digital Cities Survey examined and assessed how city governments are utilizing information technology to operate and deliver quality service to their customers and citizens. Leadership from over 300 cities were invited to participate. Officials responded to a set of 16 questions and ranked their jurisdictions according to a four-point scale, providing URLs and background data for final verification and validation. The survey grouped cities into four categories based on population. Virginia Beach placed first in its category of cities with a population of 250,000 or greater. Hampton (2), Norfolk (5) and Chesapeake (7) were recognized in the category of cities with a population between 125,000 and 249,000.

## **SALE OF ENCRYPTION SOFTWARE**

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for sales of code-breaking technology to government end-users), the product may be subject to a 30-day review by the Department of Commerce's Bureau of Industry and Security before exportation can take place.

For "retail" exportation of encryption software to those countries (e.g., products sold in large volume that do not require substantial support for installation and use), prior review is required if the software's strength is greater than 56 bits for symmetric algorithms, 512 bits for asymmetric algorithms, or 112 bits for elliptic curve algorithms. For "mass-market" exportation (e.g., products that

require substantial support for installation and use), prior review is required if the software's strength is greater than 64 bits. Our Firm can guide the seller through rules and forms for the review process if the seller decides to export.

Keep in mind that for export to most non-EU countries not listed above, an exporter must seek a license. Also, absolute restrictions remain on exports and re-exports to certain states (Cuba, Iran, Iraq, North Korea, Sudan, and Syria), their nationals, and certain other specific individuals or entities of concern. It appears, however, that U.S. executive orders promulgated earlier in 2004 may permit export of encryption software to Iraq and Libya, although under very strict license requirements. ■

# From conference room to courtroom.

*Our lawyers remain committed to the needs of our clients.*

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Return Service Requested