

## Exclusive Licensee Needs Licensors' Permission to Assign or Sublicense

By Yvette Teofan and Chaim Saiman

In *Gardner v. Nike Inc.*, 279 F. 3d 774 (9th Cir. 2002) the Ninth Circuit ruled that assignment by an exclusive licensee of a copyright of its rights under the license requires the licensor's permission or an explicit license grant. The court rejected the contention that the current Copyright Act, enacted in 1976, places an exclusive perpetual licensee in the same position as an assignee.

The specific facts of the case involved a dispute over a license agreement between Nike Inc. and Sony Entertainment Corporation, in which Sony was granted exclusive perpetual rights to a copyrighted Nike character. Sony subsequently assigned all its rights under the license to Gardner, and in response to threats by Nike of legal action against Sony and Gardner, Gardner initiated suit against Nike to determine Gardner's rights.

Transferability of an exclusive license under the current Copyright Act was a case of first impression in the Ninth Circuit. In surveying precedent decided under the 1909 Copyright Act (the predecessor statute to the current copyright law), as well as the policies reflected in the current copyright law, the court found that the presumption in the copyright law is that the right of transferability remains with the copyright owner unless it is expressly granted to the licensee, and that the fact that a licensee possesses an exclusive and perpetual license is of no consequence. Therefore, barring express permission from Nike, Sony had no right to transfer its rights under the exclusive license to Gardner.

The court also noted that policy considerations favored a finding for Nike, since allowing the licensee to freely sublicense the copyright would diminish the licensor's ability to monitor the use of the copyright and could lead to "troublesome and potentially litigious situations."

This decision highlights that substantial differences between assignments and broad ranging exclusive licenses of copyrights remain. Parties should not assume that a perpetual exclusive licensee stands in the place of the copyright owner. Therefore, a licensee desiring the right to assign its rights under an exclusive copyright license should negotiate the inclusion of express language authorizing the licensee to assign or sublicense its rights without obtaining the licensor's consent.

## NEWSWORTHY

**Supreme Court** One of the first cases heard by the Supreme Court this term, *Eldrid v. Ashcroft* involves a challenge to the constitutionality of a 1998 law that extended copyright protection by 20 years. Advocates on both sides agree that the outcome of this case is likely to have significant impact on defining the scope of intellectual property rights in the digital environment.

**Festo** The Federal Circuit recently ordered the parties to the Festo suit to submit briefs to determine whether the rebuttable presumption that prosecution history estoppel bars a finding of equivalence is a question of law or a question of fact. The court also requested briefing regarding the criteria that should be used to determine whether the presumption has been overcome.

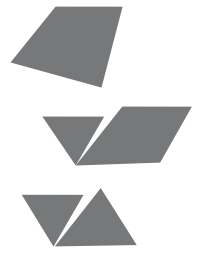
## PRACTICE NEWS

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## Intellectual Property and Technology



### Second Circuit Issues First Court of Appeals Opinion Addressing Design of Enforceable Online Agreements

By Joshua Rawson and Brian Crist

Since the enactment of the Federal E-Sign Act in July 2000, it essentially has been settled that electronic contracts are enforceable under U.S. law. But we have had little guidance from the courts or legislatures on how an online contract must be designed so that it meets basic contract formation

principles. On October 1, 2002, in *Specht v. Netscape Communications Corp.*, 2002 U.S. App. Lexis 20714, the Second Circuit issued the first circuit court opinion addressing the requirements of contract formation in cyberspace. The Second Circuit affirmed the decision below, finding that internet users who downloaded certain software from Netscape's website were not bound to the terms of Netscape's license agreement, because the webpage did not provide reasonable notice that by clicking a button marked DOWNLOAD the user was entering into a contract.

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The Second Circuit stressed the fact that the only notice of the contract terms was a hyperlink notice appearing below the DOWNLOAD button asking the user to review and agree to the contract terms before downloading. The notice did not appear on the initial computer screen and could be seen only by scrolling to the screen below, and each plaintiff testified that it had not seen the notice. However, the court also emphasized that the contract terms appeared on a separate webpage that could be accessed only by clicking several times, and that the overall page stressed the activity of downloading but underplayed the fact that the act of downloading constituted assent to contract terms located elsewhere on the website.

**On October 1, 2002** the Second Circuit issued the First Circuit court opinion addressing the requirements of contract formation in cyberspace.

Although the *Specht* decision should be seen as consistent with prior caselaw and basic principles of contract formation, it does signal that courts will scrutinize carefully the design of online contracts. True "click-through" agreements requiring a user to scroll through the contract terms before indicating assent by clicking a button marked I AGREE should meet the standards applied in *Specht*.

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CONTACT INFORMATION

## Designing Online Agreements continued

But the decision could signal that there will be greater scrutiny and skepticism regarding the enforceability of the common "browse-wrap" agreements which provide only a hyperlink notice of contract terms and rely on the implied assent of the user demonstrated by her use of a site or its services.

## Cleary Gottlieb Submits Proposal to EU Commission Regarding Technology Licensing

By John Temple Lang and Kristina Nordlander

The Transfer of Technology Block Exemption Regulation ("TTBE") provides an exemption to the application of the competition rules of the EC Treaty which otherwise prohibit agreements that can potentially restrict competition. In response to a recent call for comments to reform the TTBE, Cleary Gottlieb suggested several technical amendments as well as a few broader proposals aimed at modernizing the TTBE. Currently, the TTBE generally applies only to bilateral patent and know-how licenses, thus patent pools or cross-license agreements between competitors or joint ventures require individual review by the EC Commission. Further, the present regulation is overly concerned with territorial restrictions, and fails to meaningfully distinguish between licenses to competitors that may raise antitrust concerns, and licenses between non-competitors that should receive more favorable consideration. Finally, the Commission's current proposal would determine whether clauses in such agreements could benefit from the TTBE on the basis of a series of rules based on different market shares.

**We advocated** that the Commission should issue guidelines for the treatment of multiparty licenses, patent pools and patent cross licenses.

Cleary Gottlieb suggested that given the practical difficulties of assessing the market share involved in a particular technology license, the application of the TTBE could also be based on whether a minimum number of competing technologies are available in the marketplace. We further argued that the TTBE should be based principally on treating economically equivalent clauses consistently. Additionally, the TTBE should be amended to apply to other forms of intellectual property such as patents and copyrights, and the exemption should apply to a greater number of provisions in cases when the contracting companies are not in competition with one another. Lastly, we advocated that the Commission should issue guidelines for the treatment of multiparty licenses, patent pools and patent cross licenses.

The Commission is currently studying alternative approaches to the TTBE and expects to publish new draft rules for consultation in summer of 2003. A new exemption could be adopted in the first half of 2004.

## The *IMS Health* Case, The Interface Between Copyright Law, Database Rights, And Antitrust Law

By Nicholas Levy and Daniel Ilan

The *IMS HEALTH* case, recently decided by several European courts, squarely confronts the complex relationship between IP and antitrust law in Europe. IMS HEALTH, which supplies pharmaceutical sales data worldwide, provides German data under a format known as a "brick structure," which divides Germany into 1860 geographic areas, or "bricks." When IMS discovered that its competitors were using its 1860 Brick Structure, it obtained preliminary injunction against such use based on copyright and database rights. IMS's competitors then complained to the European Commission that IMS violated European antitrust rules by refusing to license the 1860 Brick Structure to them. In an interim decision, the Commission found that the 1860 Brick Structure was an "essential facility" and imposed a compulsory licensing obligation on IMS.

**The Frankfurt Court of Appeals held** that while the 1860 Brick Structure is copyrightable ... IMS was not the author of the 1860 Brick Structure.

IMS appealed the Commission's decision to the European Court of First Instance ("CFI"). The CFI distinguished between *IMS HEALTH* and *Magill*, the lone case in which IP was subject to a compulsory licensing order under European antitrust law. The Court explained that while in *Magill* the refusal to license a copyrighted work prevented the emergence of a new product in a separate market, IMS's competitors were seeking a license to use the 1860 Brick Structure to compete in the same market by offering essentially the same services as IMS. Consequently, the CFI suspended the Commission's decision until final judgment.

Concurrently, litigation continued in the German courts over the validity of IMS's IP rights in the 1860 Brick Structure. In a recent decision, the Frankfurt Court of Appeals held that while the 1860 Brick Structure is copyrightable under German law since it has the requisite creative elements, IMS was not the author of the 1860 Brick Structure. The Court reasoned that the Structure was co-authored by those IMS employees that developed it (as opposed to IMS itself), and by some pharmaceutical companies that contributed material input into its creation. Additionally, IMS could not successfully assert claims based on EU database rights, since the 1860 Brick Structure was merely a means to present the data (as opposed to being data in itself). However, the Court ruled that IMS was entitled to remedies under unfair competition law since its competitors slavishly copied the 1860 Brick Structure.

Scholars and practitioners are taking keen interest in the development of *IMS HEALTH*, as it will be a precedent setting case for meting the bounds between IP and antitrust law in Europe.