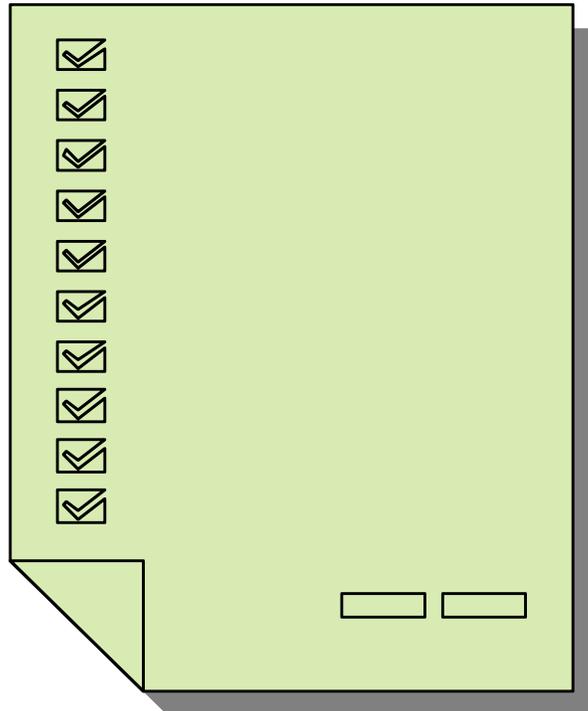


Licensing Intellectual Property



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Licensing Intellectual Property

I. Introduction

Countries with innovative local industries frequently have laws that advance and further innovation by regulating the copying of inventions, identifying symbols, and creative expressions.¹ These laws embody four separate and distinct types of intangible property - patents, trademarks, copyrights, and trade secrets, which are collectively referred to as “intellectual property.”²

A patent gives the owner exclusive rights that can provide an immense market advantage.³ A patent owner can use the patent to exclude the competition from making, using or selling the patented invention; however, the owner may alternatively license her patent rights and use the patent as an indirect source of revenue.⁴

A trademark is usually a word or a group of words, but can also include a symbol, design, color, scent, shape, or packaging.⁵ Trademarks protect the goodwill and reputation of a seller or manufacturer, and prevent unfair competition, while serving as an indicator of quality or sponsorship for consumers.⁶

* Artin Yadegarian, Western State University College of Law Candidate May 2006.

1 International Information Programs, USINFO.STATE.GOV, *What is Intellectual Property?* available at <<http://usinfo.state.gov/products/pubs/intelprp>> (last visited November 22, 2005).

2 *Id.*

3 The LawHost Online Law Journal, *Intellectual Property – An Introduction*, available at <<http://www.lawhost.com/lawjournal/98winter/intro.html>> (last visited November 22, 2005).

4 *Id.*

5 Hurt M. Saunders, *The Role of Intellectual Property Rights in Negotiating and Planning a Research Joint Venture*, 7 Marq. Intell. Prop. L. Rev. 75, 87 (2003).

6 *Id.* at 85.

A copyright is an exclusive right to reproduce an original work of authorship fixed in any tangible medium of expression, to prepare derivative works based upon the original work, and to perform or display the work.⁷

A trade secret is information that is secret or not generally known in the relevant industry and that gives its owner an edge over competitors.⁸ The law protects information as a trade secret only to the extent that the information claimed to be trade secret is maintained as a secret; and if secrecy is properly maintained, the protection may extend indefinitely.⁹

According to the firm of Fernandez and Associates LLP, licensing intellectual property can add value to your business.¹⁰ However, in order to add value to your business, the firm advises that it is critical to make wise and informed decisions throughout the licensing process.¹¹

In licensing, the owner of the intellectual property (the licensor) contracts with a potential user of the property (the licensee) for the licensee to use the property under the terms of the license agreement set forth by the parties.¹² Licenses are usually controlled by intellectual property and contract law.¹³ The licensee does not obtain any ownership rights to the property, but instead obtains a limited right to use the property as set forth in the license agreement.¹⁴ There are many variations in license terms and conditions, which make

7 International Information Programs, *supra* at 4.

8 *Id.* at 4.

9 The LawHost Online Law Journal, *supra* at 6.

10 Fernandez & Associates LLP, *Strategic Licensing in the New Economy*, available at <<http://www.iploft.com>> (last visited November 22, 2005) - p.1.

11 *Id.*

12 James W. McClain, *Intellectual Property Licensing*, available at <http://invent.ucsd.edu/news/newsletters_brochures/iplic.html> (last visited November 22, 2005).

13 *Id.*

14 *Id.*

effective licensing difficult.¹⁵ Fred M. Greguras, a senior partner at Fenwick & West, LLP, suggests “license agreements must be carefully and precisely drafted in order to obtain all the required rights.”¹⁶ Thus, it is critical that licensing of intellectual property be carefully planned and executed.

This paper focuses primarily on the licensing aspect of managing intellectual property and will step through the important guidelines in order to carefully plan and execute a license of intellectual property. Part I of this paper provides an introduction to intellectual property and licenses. Part II provides an overview of the four different types of intellectual property and the law regulating each type. Part III will explore intellectual property licenses and further provide in detail the essential pre-licensing considerations and the material provisions in license agreements. Part IV will examine the valuation of intellectual property and the different valuation methodologies. Part V will conclude that it is very important to carefully plan and execute the license agreement in order to effectively protect and exploit the intellectual property.

This paper is intended as an introduction to intellectual property licensing issues that most intellectual property owners may encounter in their work. Because of the extensiveness of this topic, only the most important issues are addressed; therefore, many relevant issues in respect to intellectual property licensing have been omitted. Thus, this paper should only be regarded as a starting point for licensing intellectual property.

15 Fred M. Greguras, *Systems-on-a-Chip: Intellectual Property and Licensing Issues*, January 20, 1998, available at <http://www.bc.edu/bc_org/avp/law/st_org/iptf/articles/content/1998012002.html> (last visited November 22, 2005).

16 *Id.*

II. Overview of Intellectual Property and the Law

Intellectual property is legally protected by various diverse sources and conceptual justifications.¹⁷ For this reason, the term “intellectual property law” is simply an umbrella term that describes certain intangible products of creativity that society has deemed to be worthy of protection, but that do not fit into the traditional categories of real or personal property.¹⁸ The term intellectual property includes the four legal subjects of patents, trademarks, copyrights and trade secrets. Although these four different areas of intellectual property have in common the theoretical concept of property, each area is directed to a different protection.¹⁹ This paper is intended to focus primarily on the issues of intellectual property licensing; hence, this portion of the paper only provides a brief overview of the different areas of intellectual property in order to provide for the reader sufficient knowledge to understand the basics of licensing.

A. Patents

A patent excludes anyone other than the owner from making, using, selling, or importing the patented invention.²⁰ The U.S. patent laws recognize three types of patents:

1. Utility patents
2. Plant patents
3. Design patents²¹

Utility patents, account for the vast majority of patents issued in the United States.²² These type of patents “may cover a device or an article, a composition of matter, a method or a

17 Kenneth L. Port, *Licensing Intellectual Property in the Digital Age*, Caroline Academic Press, 1999, p. 15.

18 *Id.*

19 The LawHost Online Law Journal, *supra* at 1.

20 Saunders, *supra* at 3.

21 Alexander I. Polterak, *Essentials of Licensing Intellectual Property*, John Wiley & Sons, Inc., 2004, p.27.

process of doing or making something, or, less commonly, a new application for an existing device or material or an old or known product made by a particular new process.”²³ Plant patents on the other hand, cover new varieties of asexually reproduced plants, and design patents are available for ornamental designs for articles of manufacture.²⁴

The Patent and Trademark Office (PTO) reviews each patent application to determine whether it meets the following requirements:

1. Patentable subject matter- the invention fits into one of the general categories of patentable subject matter;²⁵ and
2. Novelty - the invention has not been preceded in identical form in the public prior art;²⁶ and
3. Utility - the invention must be a new and useful;²⁷ and
4. Non-obvious - the invention represents a nontrivial extension of what was known;²⁸ and
5. Enablement - the applicant has disclosed and described the invention in such a way as to enable one of ordinary skill in the art to make and use the invention.²⁹

Furthermore, claims are recognized to be the heart of patent law.³⁰ Claims are found at the end of the written description of the invention and “define the boundaries of the property right that the patent confers.”³¹

B. Trademarks

A trademark is a word, logo or slogan used to identify goods and to also assist in distinguishing them from other goods.³² Examples of trademarks include:

22 The LawHost Online Law Journal, *supra* at 4.

23 Polterak , *supra* at 27.

24 *Id.*

25 35 U.S.C. § 101 (2005) - “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof...”

26 35 U.S.C. § 102 (b) (2005)

27 35 U.S.C. § 101 (2005)

28 35 U.S.C. § 103 (2005)

29 35 U.S.C. § 112 (2005)

30 Merges, *Intellectual Property in the New Technological Age*, Aspen Publishers, 2003, p.112.

- Gucci™
- Just Do It
- Mercedes Benz

A service mark performs the same functions as a trademark with respect to services as opposed to goods.³³ Examples of service marks include:

- FedEx
- UPS
- Burger King

Under the Lanham Act, trademarks are defined as any “word, name, symbol, or device or any combination thereof... used... to indicate the source of the goods....”³⁴ Trademarks are generally categorized in one of four categories: arbitrary, suggestive, descriptive and generic.³⁵

An arbitrary mark is a word or phrase that has no relationship with the product that it describes.³⁶ A good example of an arbitrary mark would be Exxon since it bears no relationship with the goods that it describes. Arbitrary marks are recognized to be “inherently distinctive” since the mark bears no association with the goods whatsoever at the time of conception;³⁷ and therefore afforded the greatest scope of protection.³⁸

Suggestive marks suggest a product in the public’s mind.³⁹ Although not arbitrary, suggestive marks require some imagination to identify the association between the mark and the goods.⁴⁰ An example of a suggestive mark would be Coppertone for a suntan lotion.⁴¹

31 *Id.*

32 The LawHost Online Law Journal, *supra*.

33 Polterak, *supra* at 33.

34 Port, *supra* at 51.

35 *Id.*

36 Merges, *supra* at 536.

37 Port, *supra* at 52.

38 Merges, *supra*.

39 *Id.*

40 Port, *supra*.

A mark is descriptive “if it describes the intended purpose, function, physical characteristic, laudatory quality, or end use of the product.”⁴² In order for a descriptive mark to be registrable, the owner of the mark must show that the mark bears “secondary meaning.”⁴³ Secondary meaning arises “when a word is used long enough and enough money is spent promoting the mark that the consuming public associates the word with the product - that is, the word takes on a source-indicating significance.”⁴⁴

Finally, a generic trademark is a mark that is so associated with a particular product class that it has become the natural way for the public to refer to that particular product.⁴⁵ A good example of a mark that has become generic is “lite” for the type of beer.⁴⁶ As long as the primary significance of the mark is used to identify a product, the mark is recognized as a generic mark and therefore not registrable.⁴⁷

In the United States, trademark rights accrue from the actual use of the mark, not from registering the mark with the United States Patent and Trademark Office (USPTO).⁴⁸ The test to determine whether a trademark has been infringed is known as the “likelihood of confusion” test.⁴⁹ The test is applied to determine whether similar trademarks can be used on similar products without confusing the relevant consumers.⁵⁰ Where there is likelihood of

41 *Id.*

42 International Information Programs, *supra*

43 Port, *supra*.

44 *Id.*

45 Merges, *supra* at 537.

46 Port, *supra*.

47 *Id.*

48 The LawHost Online Law Journal, *supra* at 1

49 Port, *supra* at 53.

50 *Id.*

confusion between the two marks, the senior (first) user may prevent the junior (subsequent) user from using the same or similar mark.⁵¹

C. Copyrights

A copyright is an “exclusive right to reproduce an original work of authorship fixed in any tangible medium of expression, to prepare derivative works based upon the original work, and to perform or display the work in the case of musical, dramatic, choreographic, and sculptural works.”⁵² A copyright secures the owner the right to prevent others from copying, selling, performing, displaying, or making derivative versions of a work of authorship.⁵³ Copyright protection attaches to the original work of authorship as soon as the work is fixed.⁵⁴ Once the material is submitted, the Copyright Office registers the work; however, there is no examination process by a governmental authority.⁵⁵ Moreover, registration is no longer required to assert the material is a valid copyright, but U.S. authors are required to register their work before filing an infringement suit.⁵⁶

Copyrights exist with express constitutional authorization.⁵⁷ The copyright clause of the Constitution provides that copyrights are to be granted “to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”⁵⁸ Copyright protection begins from the moment the material is created regardless of registration and continues for the life of the author plus 70

51 Merges, *supra* at 530.

52 International Information Programs, *supra*.

53 Polterak, *supra* at 34.

54 Merges, *supra* at 24.

55 *Id.*

56 *Id.*

57 Port, *supra* at 79.

years.⁵⁹ However, if the work is made for hire, the copyright lasts for 120 years from the time of creation or 95 years from first publication, whichever is shorter.⁶⁰

D. Trade Secrets

Another area of intellectual property subject to license agreements is trade secrets. The Restatement of (Third) Unfair Competition defines trade secrets as “any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to the operation of a business or other enterprise to afford an actual or potential economic advantage over others.”⁶¹ Trade secrets are not limited to technology, but include any information that is secret and confers a competitive advantage on its possessor.⁶² Thus, a few examples of trade secrets would include customer lists, business methods, manufacturing process and even certain chemical formulas.

The protection for trade secrets has long been a part of common law; however, most states today protect trade secrets by statute.⁶³ The purpose behind protecting trade secrets is to secure the possessor from theft of confidential information by unfair or commercially unreasonable means.⁶⁴ To benefit from trade secret protection, the owner is required to keep the information a secret by taking reasonable steps to keep its secrecy.⁶⁵ Even though trade secrets have no definite term of protection, the protection may extend indefinitely so long as

⁵⁸ *Id.*

⁵⁹ *Id.*

⁶⁰ International Information Programs, *supra*.

⁶¹ Port, *supra* at 106.

⁶² The LawHost Online Law Journal, *supra* at 6.

⁶³ Merges, *supra* at 20.

⁶⁴ *Id.*

⁶⁵ *Id.*

the information is kept a secret.⁶⁶ Once the information is disclosed, the protected of the trade secret is lost.⁶⁷

III. Intellectual Property Licensing

A license is generally defined as “a contractual promise made by the intellectual property owner to forbear from suing the licensee for acts that would amount to infringement if the license agreement did not exist.”⁶⁸ According to the firm of Fenwick & West LLP, most high technology companies rely on licenses to conduct their business and achieve their goals.⁶⁹ Depending on the exclusivity of the license agreement, the licensor and the licensee carry various degrees of risk; however, a license agreement that is carefully planned and executed effectively will minimize risk for both parties.⁷⁰ In order to carefully plan and execute a license effectively, it is critical for companies to address certain considerations. Furthermore, it is also critical for companies to examine and review the relevant provisions of the license before executing the agreement.

A. What is a License?

A license is, simply stated, a contract between the licensor and the licensee that permits the licensee to make some specified use of the licensor’s property.⁷¹ In the context of intellectual property, a license is a grant by the owner of the intellectual property to the

66 The LawHost Online Law Journal, *supra*.

67 Merges, *supra*.

68 Port, *supra* at 3.

69 Fenwick & West LLP, *Licensing Basics for High Technology and Life Sciences Companies*, 2005, available at <<http://www.fenwick.com>> (last visited November 22, 2005) - p.1.

70 *Id.* at 2.

71 *Id.*

licensee, the right to use the licensed rights free of suit by the property owner, pursuant to the terms and conditions of the agreement.⁷² Typically, the licensor's property would not otherwise be available for use by the licensee, either because there are some legal restrictions, such as a patent or copyright, that prevents the licensee from using the property, or it is a trade secret not known to the licensee.⁷³

A license is different from a sale in that the ownership of the property is not transferred and the licensor further retains certain rights to the property in the case of a license.⁷⁴ However, in certain circumstances, a license may grant sufficiently broad rights to the licensee that the law considers the license to be tantamount to a sale.⁷⁵ Under traditional property law concepts, "property rights are thought of as a bundle of individual rights, such as various rights to exclude others from the property and other rights to exploit the property as the owner sees fit."⁷⁶ Licenses are the legal tools used to allow licensees to enjoy some of those individual rights, for a limited period of time, under a limited set of circumstances.⁷⁷

There are various types of intellectual property licenses; however this paper will focus primarily on two types, which include exclusive and non-exclusive licenses.⁷⁸ The more common of the two is a non-exclusive license, which permits the licensor to grant the same rights granted to the licensee to others.⁷⁹ On the other hand, a license is exclusive when the licensee is the only entity that is granted the licensed rights.⁸⁰

72 Polterak , *supra* at 1.

73 Fenwick & West LLP, *supra* at 2.

74 *Id.*

75 *Id.*

76 *Id.*

77 *Id.*

78 McClain, *supra* at 1.

79 Fenwick & West LLP, *supra*.

1. Non-exclusive License

A non-exclusive license is an agreement by the licensor not to sue the licensee for infringement of the intellectual property rights transferred from the licensor to the licensee.⁸¹ In such licenses, the licensee is usually not allowed to transfer the rights by assignment to another party and, unless otherwise expressly stated in the license agreement, a non-exclusive licensor may practice the same rights to the intellectual property or authorize others to do so on behalf of the licensee.⁸² An example of a non-exclusive license would be a typical license to use a commercial software product since there are numerous other licensees of the same software. In a non-exclusive license, the rights granted to the licensee may also be granted to others.⁸³ Licensing to several licensees increases the likelihood that the licensor's goal and the purpose behind the license will be accomplished.⁸⁴

2. Exclusive License

An exclusive license prevents the licensor from granting other licenses and further precludes the licensor from practicing the invention unless the licensor reserves the right to do so under the license agreement.⁸⁵ An example of an exclusive license would be where the owner of a fast food franchise is granted exclusive rights to use the franchise trademarks with some specified geographical area.⁸⁶ In certain cases, an exclusive license grants the licensee

⁸⁰ *Id.*

⁸¹ James D. Hamilton, Esq., *Licensing Patents and Trade Secrets*, 2000, available at <<http://www.oblon.com/Pub/acihamilton.html>> (last visited November 22, 2005) – p.5.

⁸² *Id.*

⁸³ Fenwick & West LLP, *supra*.

⁸⁴ Fernandez & Associates LLP, *supra* at 4.

⁸⁵ Hamilton, *supra* at 4 – 5.

⁸⁶ Fenwick & West LLP, *supra*.

rights that are so broad as to be virtually indistinguishable from the transfer of ownership.⁸⁷

In such cases, the license grant is often exclusive against the licensor who is also the owner of the property.

Even though non-exclusive licenses are more common, some parties desire an exclusive license. In either case, both the licensor and the licensee should consider all issues related to the exclusivity of the license agreement, which will be discussed in detail in the section of this paper titled Important Provisions in License Agreements.

B. Why License?

Why license intellectual property? The decision to license intellectual property is largely motivated by various business factors along with legal factors.⁸⁸ Most of these motivations to license are driven by marketing, financial or strategic objectives.⁸⁹ Even though a single licensing plan may often times include motivations based on more than one objective, the overall purpose of the plan tends to drive in one direction or another.⁹⁰

1. Marketing Motivations

Marketing professionals strongly believe that it is critical for a company to expand and reinforce the awareness of the company's brand with consumers to maintain their market position.⁹¹ One of the ways to incite consumer awareness is through licensing.⁹² A license may enable a company to exploit other markets by allowing the licensee to apply the property

⁸⁷ *Id.*

⁸⁸ Port, *supra*.

⁸⁹ *Id.* at 4.

⁹⁰ *Id.*

⁹¹ Port, *supra*.

to a different market.⁹³ Moreover, the licensee may advertise the product line and expand the presence of the product line in the marketplace.⁹⁴ In addition, a licensing program permitting the licensee to expand the product line may extend the brand into entirely new channels of distribution.⁹⁵

Another marketing motivation is that a license may extend advertising budgets.⁹⁶ In the case of medium sized brands, those with media budgets in the \$10 - \$25 million per year range, their advertising budgets can be significantly stretched.⁹⁷ In one study, it was concluded that “a licensee will typically spend 3% to 7% of his sales on advertising and the combined impact of a well-conceived and well-orchestrated family of licensees can raise the overall spending for a brand by 40 - 50%, and sometimes more.”⁹⁸

2. Financial Motivations

The most significant and commonly heard motivation to license is money.⁹⁹ Income growth is one of the primary reasons for a corporation’s existence, and many of these corporations face increased competition and lower sales growth; therefore, they must find ways to expand their revenue and profits with their existing brands.¹⁰⁰ Licensing created revenue.¹⁰¹ By licensing out, a company may generate income from unused portions of its

92 *Id.* at 5.

93 Fernandez & Associates LLP, *supra* at 3.

94 Port, *supra*.

95 *Id.*

96 *Id.*

97 *Id.*

98 *Id.*

99 Polterak , *supra* at 2.

100 Port, *supra* at 7.

101 Polterak , *supra*.

intellectual property.¹⁰² Furthermore, most licenses include royalties, either in the form of lump sum or periodic payments based on sales.¹⁰³ As a result, financial managers of many corporations are becoming increasingly involved in identifying and pursuing programs involving such licensing programs to take advantage of the financial benefits.¹⁰⁴

Some financial managers pursue licensing programs with the goal of enhancing the market valuation of their company.¹⁰⁵ Licensing out is not only an effective way for a company to enable its invention to take advantage of the benefits of other industries but also a way to capitalize on the potential of foreign markets.¹⁰⁶ Licensing out to licensees such as other firms for production and distribution to different markets and populations can enable the licensor to further profit for the property while protecting itself from the overhead required to participate in foreign markets.¹⁰⁷

3. Strategic Motivations

One of the main strategic motivations to develop licensing relationships is to eliminate barriers to entry.¹⁰⁸ Companies often times face these barriers to entry, which are substantial from all business standpoints.¹⁰⁹ In such circumstances, these companies seek for strategic alliances, which can be accomplished through licensing.¹¹⁰ The way licensing can eliminate the barriers is through a complimentary license program which aligns two companies with

102 Fernandez & Associates LLP, *supra*.

103 Polterak , *supra*.

104 Port, *supra*.

105 Port, *supra at 8*.

106 Fernandez & Associates LLP, *supra*.

107 *Id.*

108 Port, *supra*.

109 *Id.*

110 *Id.*

each other to achieve a common goal.¹¹¹ Such as “You make it I’ll sell it” or “We’ll add your left arm to [our] right arm.”¹¹²

Another strategic motivation is to expand into new markets.¹¹³ A license may be used as a vehicle for entry into new geographic areas or product markets.¹¹⁴ Many companies use license programs to expand their sales rapidly without the need to commit to building plants and organizations in different locations.¹¹⁵ The motivation to expand into new markets further benefits the company in that the licensee bears all the risks associated with such a venture where the licensee is granted the right to entry into a geographic market not served by the licensor.¹¹⁶ In addition, if the licensee’s efforts prove successful, the licensor may enter the market as well, assuming that the license was non-exclusive.¹¹⁷ If, however, the licensee’s efforts are not so successful and end in failure, the licensor has learned a valuable lesson at no cost to itself.¹¹⁸

C. Pre-licensing Considerations

There are various issues that should be considered by an intellectual property owner who wishes to license out their product. These issues range from simple concepts such as determining what a license is to complicated issues such as whether the licensee has the appropriate resources to carry out its obligations.¹¹⁹ While the preceding discussion will entail all of the significant considerations that should be addressed by the licensor before

111 *Id.*

112 *Id.*

113 Polterak , *supra* at 3.

114 *Id.*

115 Port, *supra*.

116 Polterak , *supra*.

117 *Id.*

executing a license agreement, most of the considerations are relevant to both parties and should also be considered by the licensee. Furthermore, the discussion below only examines the most critical issues; therefore, please note that there are other issues related to licensing that should also be considered before engaging into an agreement.

1. Licensor must have something to license

Before intellectual property can be licensed out, the licensor must first develop or otherwise obtain intellectual property.¹²⁰ For some companies, intellectual property flows naturally from routine business operations; however, in some cases, companies create intellectual property for the sole purpose of licensing.¹²¹ In either case, it is important for the licensor to ask itself whether it has property it can license because without the intellectual property, a license is void and cannot be executed.

2. Ownership of intellectual property being licensed

A company may have innovative products or spectacular technology and its legal counsel may draft an impeccable license agreement.¹²² Nevertheless, if the company is not the owner of the intellectual property licensed out under the agreement, all can be for naught.¹²³ This problem can be avoided through the use of appropriate forms and procedures,

118 *Id.*

119 Fernandez & Associates LLP, *supra*.

120 Lawrence H. Meier, Esq., *An Introduction to Intellectual Property Licensing for Technology Companies*, available at <<http://www.drm.com/newstand/publications/IP.Issues.Facing.High.Tech.Companies.pdf>> (last visited November 22, 2005) – p.2.

121 *Id.*

122 *Id.* at 3.

123 *Id.*

especially in cases where the creator is an employee or a consultant of the company.¹²⁴ Thus, it is very important for the licensor to make sure that they have ownership of the property and the licensee should make sure the licensor is the owner of the intellectual property being licensed. Both parties should conduct their own research in order to make sure the property being licensed is under the ownership of the licensor to avoid any legal consequences after the agreement has been executed.

3. License v. Assign

Licensing is known to be the most common commercialization pathway.¹²⁵ However, under certain circumstances, an assignment of intellectual property may be a more desirable or even necessary pathway.¹²⁶ Since different circumstances require different programs, it would be wise for the property owner to consider the influencing factors and determine whether to license or assign their intellectual property.

An assignment involves the sale and transfer of ownership of the property by the owner of the property (assignor) to the person interested and purchasing the property (assignee).¹²⁷ The transfer of ownership is permanent and irrevocable and the sale results in the former owner being permanently divested of ownership.¹²⁸

Similar to all other business transactions, there are advantages and disadvantages of both licenses and assignments. Therefore, is very important to examine both transactions to determine which of the two fit into your strategy and will help achieve the company's

¹²⁴ *Id.*

¹²⁵ Philip Mendes, *To License a Patent or, to Assign it: Factors Influencing the Choice*, available at <http://www.wipo.int/sme/en/documents/license_assign_patent.htm> (last visited November 22, 2005) – p.1.

¹²⁶ *Id.*

¹²⁷ *Id.*

¹²⁸ *Id.*

ultimate goal. For example, an assignment may be considered an alternative to a license if the owner has no continuing interest in the intellectual property.¹²⁹ Therefore, if the owner prefers to retain rights to the property, it would be wiser to license out the property in order to preserve those rights. In addition, there lies another distinction between licenses and assignments in the field of taxation.¹³⁰ As a general rule, “payments made for assignments of [intellectual property] must be capitalized by the assignee and may be taxed as capital gains to the assignor.”¹³¹ However, royalties paid under a license are deductible business expenses of the licensee and constitute ordinary income for the licensor.¹³² Therefore, depending on which tax bracket your company falls in and what the ultimate goal of the company is, a company should weigh-in the factors in order to determine which of the two transactions would be more beneficial. Another distinction lies with respect to standing to sue for infringement.¹³³ The Federal Circuit has held that “determination between assignment and license requires the court to determine the intention of the parties and examine the substance of what was granted.¹³⁴ In summary, a certain right to intellectual property is transferable by assignment or license; an assignment includes a transfer of the right to exclude others from making, using or selling the property and a license includes a waiver of that right.¹³⁵ Therefore, the transfer of the right to sue for infringement is an important aspect of an assignment and should be heavily considered before executing an agreement in relation to another’s use of your intellectual property.

129 Port, *supra* at 12.

130 Hamilton, *supra* at 6.

131 *Id.*

132 *Id.*

133 *Id.*

134 *Id.* at 7.

135 *Id.*

Neither transaction is necessarily the better option. Depending on the needs and expectations of the owner, either a license or an assignment may present a better program. Some factors may weigh in favor of licensing and others may weigh in favor of assigning. Therefore, both the advantages and disadvantages of each transaction should be considered in order to determine which of the two would help achieve the company's goal.

4. Due diligence

In certain circumstances, the licensor should consider investigating the licensee and exploring the licensee's capabilities.¹³⁶ The licensor may want to investigate the likelihood that the licensee will satisfy its obligations to market and sell the licensed product.¹³⁷ Furthermore, ensuring that the licensee has the revenue to accomplish the license program is another factor the licensor should consider.¹³⁸ In other words, the licensor should inquire and determine whether the licensee has the appropriate resources to carry out the license program.

Intellectual property licensing is definitely a subject area where the phrase "buyer beware" applies.¹³⁹ It is not enough for the licensee to merely accept the warranties and representations of the licensor.¹⁴⁰ For example, a licensee would need to conduct their own research and investigate whether the licensor has maintained the licensed property in order to avoid future consequences as a result of invalid intellectual property.¹⁴¹ It is therefore evident that both parties should consider conducting their own due diligence to avoid future issues.

136 Fernandez & Associates LLP, *supra*.

137 Meier, *supra* at 3.

138 Fernandez & Associates LLP, *supra*.

139 Meier, *supra* at 3.

140 *Id.*

5. Licensing Strategy

To maximize the value of licensed intellectual property, it is critical that a licensing strategy be planned and followed.¹⁴² When considering a licensing strategy, the company should analyze to determine how the licensing program would fit into the overall business plan of the company.¹⁴³ Even though licensing strategies can be extremely sophisticated, even an elementary licensing strategy addressing the minimum issues is better than no strategy.¹⁴⁴ An ideal strategy should both compliment and enhance a company's product line while providing "an even more attractive position for the company vis a vis the market in which it participates."¹⁴⁵ At a minimum, terms including field of use, territory, exclusivity v. non-exclusivity and termination, which will all be discussed in detail below, should be considered.

6. Revenue

Revenue is generally the primary motivator for companies who license out their intellectual property.¹⁴⁶ The key issues that should be considered regarding revenues are the amount the licensee should pay the licensor for the right to use the licensed property and the form the license royalty should take.¹⁴⁷ Revenue as a result of a license agreement is typically sought either through upfront license fees or through periodic fees, or both.¹⁴⁸ In

141 *Id.*

142 *Id.* at 7.

143 Fernandez & Associates LLP, *supra*.

144 Meier, *supra*.

145 Fernandez & Associates LLP, *supra*.

146 Polterak , *supra* at 2.

147 Polterak , *supra* at 99.

148 Fernandez & Associates LLP, *supra* at 6.

either case, numerous variations for establishing revenue are used in license agreements.¹⁴⁹

A few examples include:

- Up-front payment with yearly maintenance fees or minimal annual fees
- Tiered royalties based upon volume or gross revenue thresholds
- Minimum and maximum payments
- Optional payments for maintaining exclusivity¹⁵⁰

These are only a few of the variations used in establishing revenue. No matter which method is used, determining the revenue generated by the license is a very important consideration addressed to both the licensor and the licensee; whereas the licensor seeks to maximize revenue and the licensee seeks to minimize the license costs.¹⁵¹

7. Licensing Costs

As with all business related activities, economics plays a large role in determining whether to engage in a license agreement.¹⁵² Generally, companies usually strive to reduce costs to increase their profits. In relation to licensing, there are various factors that affect the total cost of the agreement including research and development, marketing, taxes and royalties. According to the firm of Fernandez & Associates LLP, “the total cost of the licenses may drive the retail price of the product out of the market.”¹⁵³ Thus, in order to avoid similar negative results, both parties should make a careful analysis of all the licensing costs before engaging into an agreement.

¹⁴⁹ *Id.*

¹⁵⁰ *Id.*

¹⁵¹ *Id.*

¹⁵² International Information Programs, *supra* at 6.

8. Provisions

All license agreements, regardless of the type, consist of provisions that propose the terms and conditions of the program.¹⁵⁴ A license agreement contains the terms in which the parties actually agreed and accepted to; however, it must not contain provisions that could invalidate or render unenforceable all or part of the agreement.¹⁵⁵ Hence, it is very important for both parties to discuss and consider the relevant terms before executing the license agreement in order to prevent invalid agreements.

D. Important Provisions in License Agreements

A license is similar to a contract where it requires certain elements in order for it to be binding.¹⁵⁶ In general, a license must identify the parties and indicate what each is to give and receive as consideration; must include the property to be licensed and the particular rights to that property that are licensed; must be sufficiently complete and specific to establish that there was a “meeting of the minds” between the parties; and must show that the parties agreed and accepted the terms of the license.¹⁵⁷ The following discussion includes some of the important provisions that are essential aspects of license agreements along with sample clauses.

153 Fernandez & Associates LLP, *supra* at 4.

154 Port, *supra* at 279.

155 Fenwick & West LLP, *supra* at 14.

156 *Id.*

157 *Id.*

1. Parties

Mostly out of custom, almost every license agreement starts out with language identifying and defining the parties involved.¹⁵⁸ The purpose of this provision is not only to name the parties, but also to give some information about the parties such as where they can be found and where they are incorporated in the case of corporations.¹⁵⁹ Therefore, this provision identifying the parties should include the official corporate name, the state in which it is incorporated, and the principal address of the corporation.¹⁶⁰

There is also a functional purpose for identifying the parties; it identifies the roles of each party and whether the party is a licensee or a licensor.¹⁶¹ A typical clause defining the parties might read as follows:

Contair Co., a corporation duly organized and existed under the laws of the state of Wisconsin having a principal address at 000 Water Street, Milwaukee, Wisconsin [hereinafter Licensor]...¹⁶²

2. Recitals or “Whereas” Clauses

The recitals of a license agreement, often comprises of a number of paragraphs beginning with “Whereas,” are considered to provide the context of the circumstances surrounding the license.¹⁶³ Recitals should tell the story of how the parties reached the negotiations along with the purpose of the agreement.¹⁶⁴ These clauses can be important in later interpretation of the license agreement, whether or not in the context of litigation;

¹⁵⁸ Port, *supra* at 280.

¹⁵⁹ *Id.*

¹⁶⁰ *Id.*

¹⁶¹ *Id.*

¹⁶² *Id.*

¹⁶³ Fenwick & West LLP, *supra*.

¹⁶⁴ Port, *supra*.

therefore, it should be given careful consideration.¹⁶⁵ Some typical recitals might read as follows:

WHEREAS, Contair Co. manufactures, distributes and sells luxury automobiles in the United States and many foreign countries; and

WHEREAS, Contair Co., by prior use and registration, has established rights in and to the trademark ESTRELLA for use on automobiles, parts, and accessories; and

WHEREAS, Assist Co. manufactures, distributes and sells seat cushions in luxury watercraft namely yachts; and

WHEREAS, Assit Co. desires to use the trademark ESTRELLA on or in connection with the sale of its seat cushions used in luxury yachts;

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, and other good and valuable considerations, the sufficiency and receipt of which is hereby acknowledged, the parties hereto agree as follows...¹⁶⁶

3. Definitions

For all but the simplest license agreements, it would be desirable to include a clause in the agreement defining the key provisions.¹⁶⁷ There is no legal requirement to include a section in the license agreement defining terms used in the license; however, when the license is lengthy and complex, a section with definitions can increase the clarity of the document.¹⁶⁸ In addition, clarity may promote a better understanding of what the parties intended if the license agreement is later litigated.¹⁶⁹ In the case of lawsuit, terms that are undefined such as

165 Meier, *supra* at 7.

166 Port, *supra* at 281.

167 Meier, *supra*.

168 Fenwick & West LLP, *supra*.

169 *Id.*

royalty, field of use or improvement will be defined by the court using case law and customary commercial practice, which may be the opposite of what the parties intended.¹⁷⁰

4. License Grant Clause

The license grant is the provision in the agreement that defines the rights the licensee obtains in the intellectual property of the licensor.¹⁷¹ The grant clause is often recognized as the most critical part of the agreement.¹⁷² Courts have generally held that “all rights not expressly granted by the licensor are reserved by the licensor.”¹⁷³ Nevertheless, it is good practice to specify in the grant clause what is not granted along with what is granted, to avoid possible ambiguity.¹⁷⁴ A simple grant clause might read:

Licensor hereby grants to Licensee a non-exclusive, non-assignable license under the Patent to make, use and sell products for the term of this agreement. In no event shall this agreement be construed to provide any license to practice any testing process or method.¹⁷⁵

5. Delivery

This clause expresses exactly how the transfer of intellectual property will take place.¹⁷⁶ This ranges from simple deliveries such as the delivery of a manual to the more complex deliveries such as the installation of equipment.¹⁷⁷ A delivery clause that explains how the licensed rights will be transferred might read:

¹⁷⁰ Port, *supra* at 282.

¹⁷¹ Meier, *supra*.

¹⁷² Fenwick & West LLP, *supra* at 15.

¹⁷³ *Id.*

¹⁷⁴ *Id.*

¹⁷⁵ *Id.*

¹⁷⁶ Port, *supra* at 283.

Within 30 days after execution of this agreement, Licensor shall deliver to Licensee's business place the Estrella logo and mark in the form of die cuts, electronic images, photographs, molds, and other media, as particularly described in Exhibit A. For the first 12 months of this agreement, Licensor's graphic designer, John Jones, shall spend 10 hours per month as a place of business designated by licensee to work on integrating Estrella logo and mark into licensee's marketing programs.¹⁷⁸

6. Territory

A territory provision describes the geographic region in which the licensee can practice the rights granted in the license agreement.¹⁷⁹ Territory definitions can range from a room in a particular building, to a specific city, to the entire world.¹⁸⁰ The licensing strategy of the licensor and the license needs of the licensee generally make up the geographic scope of the territory provision.¹⁸¹

7. Sublicensing

An exclusive license often permits the licensee the right to sublicense.¹⁸² If an express authorization to sublicense is absent in the license agreement, the licensee does not have the right to sublicense the rights.¹⁸³ Therefore, if the licensee desires sublicensing rights, the licensee should make sure that the license agreement addresses the issue in order to prevent future litigation. Sublicensing rights are not usually granted to the licensee in a non-

¹⁷⁷ *Id.*

¹⁷⁸ *Id.*

¹⁷⁹ Meier, *supra* at 9.

¹⁸⁰ *Id.*

¹⁸¹ *Id.*

¹⁸² *Id.* at 10.

¹⁸³ *Id.*

exclusive license agreement; however, in some situations, exceptions exist where the licensee is granted the right to sublicense in a non-exclusive license.¹⁸⁴

8. Duration and Termination

All agreements should be specific as to duration, which can be expressed as “for the life time of XYZ patent” or for a specific term of years.¹⁸⁵ Factors that may influence the term of the agreement include the nature of the intellectual property, the respective leverage of the parties and the business context in which the license agreement exists.¹⁸⁶ In addition, various events may give rise to termination of the agreement such as failure to comply with a material obligation.¹⁸⁷ Thus, the agreement should clearly express a procedure for terminating or renewing the license as well as terms of termination upon default or breach by either party.¹⁸⁸

9. Warranties and Indemnification

Generally, each party to a license agreement wants to avoid offering warranties and specifically disclaim any warranties, and yet demand that the other party offer broad warranties without disclaimer.¹⁸⁹ However, the licensor will usually warrant that it owns title and right of ownership in the property.¹⁹⁰ For example,

184 *Id.*

185 Port, *supra* at 284.

186 Meier, *supra* at 12.

187 *Id.*

188 Port, *supra* at 284.

189 Meier, *supra* at 13.

190 Port, *supra*.

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Included with the warranties or warranty disclaimer is usually an indemnification clause that provides which party will bear the burden of defending any claims or suits caused by one's negligence that arises out of the license.¹⁹² An example of an indemnification clause may read:

Licensee shall indemnify, defend, and hold harmless Licensor from and against any demand, claim, damage, liability, loss, cost, or expense (including reasonable attorney's fees) (collectively "Damages") that Licensor may sustain resulting from, relating to, or arising out of (a) any misrepresentation or breach of warranty made by licensee in this Agreement, (b) any failure by Licensee to perform its obligations under this Agreement, or (c) any intentional tort, negligent, grossly negligent or reckless action or inaction by Licensee.¹⁹³

10. Confidentiality

With respect to confidential information or trade secrets, which are transferred under a license agreement, it is necessary to consider including a confidentiality clause in the agreement.¹⁹⁴ There are a number of issues to address in structuring confidentiality provisions.¹⁹⁵ The issues include the term of confidentiality such as a period of years or perpetual, and how the term is measured, whether from the date of disclosure or for a number

¹⁹¹ *Id.*

¹⁹² *Id.*

¹⁹³ Port, *supra* at 285.

¹⁹⁴ Hamilton, *supra* at 10.

of years after a specified date.¹⁹⁶ From the perspective of the party receiving confidential information, it is wise to specify the standard of care that needs to be exercised to prevent unauthorized use and disclosure of the information.¹⁹⁷ In addition, need-to-know restrictions are also often included where the groups of individuals to whom the discloser's confidential information may be provided are identified.¹⁹⁸

11. Best Efforts

The licensor may want a best efforts provision stating that the licensee will exercise its best efforts in developing and selling the intellectual property.¹⁹⁹ A best efforts clause is a key part of an exclusive license, since the licensor depends entirely upon a single licensee to secure a return on investment in an exclusive license.²⁰⁰ If the clause is not present in the agreement, courts presume a best efforts clause; however, including the clause permits the licensor to sue for breach of contract and obtain damages had the intellectual property been put to its reasonable use.²⁰¹

12. Dispute Resolution

Disputes arising under the license agreement are not necessarily resolved in state or federal court.²⁰² The parties may agree to alternative dispute resolution.²⁰³ Such provisions

195 Meier, *supra* at 11.

196 *Id.*

197 *Id.* at 12.

198 *Id.*

199 Port, *supra* at 286.

200 *Id.*

201 *Id.*

202 Meier, *supra* at 15.

203 *Id.*

only require that the licensing parties meet and attempt to resolve their disputes before litigation.²⁰⁴ Another option parties have is to agree to use a mediator to resolve their dispute.²⁰⁵ Regardless of which approach is taken, it would be advantageous for both parties to provide in the license agreement how the alternate dispute resolution will be conducted in the case of disputes.²⁰⁶ The parties should consider issues such as mediation and arbitration rules to be used, choice of law to be applied, payment, right to injunctive relief, the selection of mediators and arbitrators along with other factors.²⁰⁷

13. Force Majeure

A force majeure clause allows the parties to cancel their obligations under the license should a riot, war, foreign government intervention, etc. make the performance impossible.²⁰⁸ Failure to include a force majeure clause may cause the licensee to “make minimum royalty payments even though intervening events subsequent to the execution of the agreement have made the licensed technology worthless.”²⁰⁹

IV. Valuation of Intellectual Property

The valuation procedure is a “bringing together of the economic concept of value and the legal concept of property.”²¹⁰ For the licensor, valuation is part of the entire licensing program from the decision to license, to the search for the appropriate licensee, and finally to

²⁰⁴ *Id.*

²⁰⁵ *Id.*

²⁰⁶ *Id.*

²⁰⁷ *Id.*

²⁰⁸ Port, *supra* at 285.

²⁰⁹ *Id.*

calculating a profitable deal.²¹¹ From the licensee's perspective, valuation is about accurately measuring and forecasting the cost of implementing the licensor's intellectual property and the potential revenues that can be earned, and weighing the results against downside risks.²¹²

Value assessment is not an accounting operation but rather an attempt to reconcile information regarding the intellectual property for the purpose of making better strategic decisions.²¹³ Some of the information related to the reconciliation process includes the expectation of income, development costs, comparative advantages and market data.²¹⁴

There are three main approaches used to value intellectual property.²¹⁵ The three methods include cost, market and income approaches.²¹⁶ Each of these methods, together with their limitations, are discussed briefly below.

A. Cost Approach

The cost approach seeks "to measure the future benefits of ownership by quantifying the amount of money that would be required to replace the future service capability of the subject intellectual property."²¹⁷ The premise of this approach is that an investor would pay no more to purchase the asset than would be paid to reproduce the asset.²¹⁸ The cost

210 Kelvin King, *The Value of Intellectual Property, Intangible Assets and Goodwill*, available at <<http://scientific.thomson.com/knowtrend/ipmatters/acctecon/8199544/>> (last visited November 22, 2005) – p.2.

211 Port, *supra* at 209.

212 *Id.*

213 Ruchi Jain, *Valuation of Intellectual Property: Approaches*, National Law University, Jdhpur, p.2.

214 *Id.*

215 Port, *supra* at 210.

216 *Id.*

217 *Id.*

218 Caroline Woodward, *The Valuation of Intellectual Property*, PriceWaterhouseCoopers, available at <<http://www.pwc.com/extweb/newcolth.nsf/docid/76D5067B806EA02F8525700D00708B88>> (last visited November 22, 2005) – p.4.

approach does not directly consider the amount of economic benefits that can be achieved.²¹⁹ In addition, this approach does not consider the time period over which they might continue.²²⁰ There lies an assumption with this method that economic benefits exist and are of sufficient amount.²²¹

The starting point in implementing the cost approach is to obtain an estimate of the cost to reproduce a new replica of the intellectual property.²²² The two methods for valuation under this approach include the *Historical Cost Trending* and the *Recreation Cost* methods.

Under the *Historical Cost Trending* method, records kept by corporations indicating the costs that were incurred in the development of the asset are examined.²²³ These records provide an indication of the total cost that would have to be invested in order to reproduce a new replica of the intellectual property.²²⁴ The *Recreation Costs* method is generally used when there is a lack of accurate record keeping.²²⁵ This method requires a direct estimate of the efforts and costs necessary for creating a similar asset in order to derive the cost to reproduce a similar asset.²²⁶

B. Market Approach

The market approach determines the value of intellectual property based on comparison with sales of similar assets.²²⁷ When the market approach is used, the value of a

219 Port, *supra*.

220 *Id.*

221 *Id.* at 211.

222 *Id.* at 213.

223 *Id.*

224 *Id.*

225 *Id.*

226 *Id.*

227 Woodward, *supra*.

specific intellectual property can be measured by looking at the prices paid for comparable property.²²⁸ It estimates the value based on market prices of comparable assets that have been bought and sold or licensed between parties.²²⁹

Requirements for successful use of this approach include the following:

- The existence of an active market
- Post transactions of comparable property
- Access to pricing information
- Arm's length transactions between independent parties²³⁰

Transactions of specific items of intellectual property are not common.²³¹ When similar transactions occur, the terms of the exchange are not usually disclosed to the public.²³² Thus, the most difficult requirement of the market approach is comparability.²³³ Furthermore, even if pricing information of a specific transaction were available, the price at which the property was exchanged will most likely be irrelevant unless positive comparability exists between the two properties being compared.²³⁴

C. Income Approach

Under the income approach, the value of the intellectual property is estimated based on the expected income attributable to the property during its remaining economic life.²³⁵

The value of the asset can be expressed as the present value of the future stream of the

²²⁸ Port, *supra* at 215.

²²⁹ Jain, *supra* at 4.

²³⁰ Port, *supra*.

²³¹ *Id.*

²³² Port, *supra*.

²³³ *Id.*

²³⁴ *Id.*

²³⁵ Jain, *supra* at 3.

economic benefits that can be derived from its ownership.²³⁶ Answering the following questions in order to have an accurate income approach can summarize a number of factors:

- What amount of economic benefit can be expected?
- How long can it be expected to continue?
- Will the amount of benefits be increasing or decreasing?
- What risk is involved with achieving the anticipated benefits?
- Can specific economic benefits be attributed to specific intellectual property?²³⁷

V. Conclusion

Licensing of intellectual property is an exciting and potentially rewarding undertaking.²³⁸ However, for a license program to be a success the owner of the property must first understand the basic mechanics of licensing and the strategies implemented through license agreements. To maximize the effectiveness of the license program, it is important that the pre-licensing considerations discussed above are carefully examined before executing the license agreement.²³⁹ In addition, it is also very important to review the important provisions generally included in license agreements in order to determine which terms apply to the case at hand.

²³⁶ *Id.*

²³⁷ Port, *supra* at 217.

²³⁸ Meier, *supra* at 20.

²³⁹ *Id.*

GLOSSARY OF INTELLECTUAL PROPERTY TERMS²⁴⁰

ASSIGNMENT [patent-trademark-copyright]. A transfer of rights in intellectual property. An assignment of a patent, for example, is a transfer of sufficient rights so that the recipient has title to the patent. The assignment can be a transfer of all rights of exclusivity in the patent, of an undivided portion (for example, a 50 percent interest), or of all rights within a specified location (for example, a certain area of the United States). Transfer of anything less is considered to be a "license."

AUTHOR [copyright]. Either the person who creates a copyrightable work or the employer of a person who creates a copyrightable work within the scope of employment. "Author" in copyright law includes not only writers of novels, plays, and treatises, but also those who create computer programs, arrange data in telephone books, choreograph dances, take photographs, sculpt stone, paint murals, write songs, record sounds, and translate books from one language to another.

BEST MODE [patent]. A condition for the grant of a patent. An inventor must describe the best method he or she knows for carrying out the invention.

CONTRIBUTORY INFRINGEMENT [patent-trademark-copyright]. Indirect infringement of intellectual property rights in which one person contributes to the direct act of infringement of another. Contributory infringement of a trademark, for example, occurs when a manufacturer of goods aids or encourages its distributors to pass off its goods as those of another manufacturer.

COPIES [copyright]. As a noun, the material objects that store or fix copyrightable information other than sounds; as a verb, the act of copying.

COPYING [copyright-patent-trademark]. In copyright law, "copying" denotes two separate but interrelated concepts. To constitute an infringement of copyright, a work must be a "copy" in the sense that it is substantially similar to a copyrighted work, and it must have been copied from the copyrighted work as opposed to being the result of coincidental, independent production or from being taken from the same source as the copyrighted work. Legal standards for infringement of copyright differ from those for patents and trademarks; the latter do not require proof of copying.

COPYRIGHT [copyright]. An exclusive right conferred by the government on the creator of a work to exclude others from reproducing it, adapting it, distributing it to the public, performing it in public, or displaying it in public. Copyright does not protect an abstract idea; it protects only the concrete expression of an idea. To be valid, a copyrighted work must have originality and some modicum of creativity.

DEPENDENT CLAIM [patent]. A claim in a patent that refers back to a previous claim and defines an invention that is narrower in scope than that in the previous claim.

²⁴⁰ This dictionary is from McCarthy's Desk Encyclopedia of Intellectual Property, Second Edition, written by J. Thomas McCarthy. Copyright ©1996 by The Bureau of National Affairs, Inc., Washington, D.C. 20037.

A dependent claim is written so as to be more restricted than the technology defined in the previous claim.

DERIVATIVE WORK [copyright]. A work based on a preexisting work that is changed, condensed, or embellished in some way.

DESCRIPTIVE MARK [trademark]. A word, picture, or other symbol that describes something about the goods or services in connection with which it is used, such as their purpose, their size and color, the class of users, or the end effect on users. A descriptive term is not considered to be inherently distinctive; to establish validity for registration or protection in court, it needs proof of acquired distinctiveness, known as "secondary meaning."

DESIGN PATENT [patent]. A government grant of exclusive rights in a novel, nonobvious, and ornamental industrial design. A design patent confers the right to exclude others from making, using, or selling designs that closely resemble the patented design. A design patent covers the ornamental aspects of a design; its functional aspects are covered by a utility patent. A design patent and a utility patent can cover different aspects of the same article, such as an automobile or a lamp.

DISTRIBUTION RIGHT [copyright]. Exclusive right of a copyright owner to distribute copies or phonorecords of his or her work to the public by sale, lease, or rental. Unlike the other rights of copyright, the distribution right is infringed merely by a transfer of copies of a work, whether those copies were made lawfully or unlawfully, except under the "First Sale Doctrine."

DURATION [patent-trademark-copyright-trade secret]. The term or length of time that an intellectual property right lasts. A U.S. patent on an invention, for example, has a duration of 20 years from the date on which the patent application was filed, as does a plant patent. The basic duration of a U.S. copyright is the life of the author plus 70 years. Protection of information as a trade secret lasts as long as the information remains secret.

EQUIVALENTS, DOCTRINE OF [patent]. A rule of claim interpretation under which a product or process, although not a literal infringement, is an infringement if it performs substantially the same function in substantially the same way to obtain substantially the same result as a patented product or process.

FAIR USE [copyright-trademark]. A defense to a charge of copyright or trademark infringement. For copyrights, U.S. courts consider four factors in determining if a fair use defense exists: the purpose and character of the disputed use; the nature of the copyrighted work; the importance of the portion used in relation to the work as a whole; and the effect of the use on the market for or value of the copyrighted work. For trademarks, the secondary user must show that he or she is not using a descriptive, geographically descriptive, or personal name mark in a trademark sense but only to describe his or her goods or services or their geographic origin, or to name the person running the business.

FIELD OF USE RESTRICTION [general intellectual property-antitrust]. A provision in an intellectual property license restricting the licensee to use the licensed property only in a defined product or service market.

FIRST TO FILE [patent-trademark]. A rule under which, for patents, priority is determined by which inventor was the first to file a patent application, rather than by who was first to invent. This rule is followed by almost every nation in the world except the United States. For trademarks, priority between conflicting applications to register a trademark is handled by publishing the application with the earliest filing date for possible opposition by the applicant with a later filing date. In the United States, ownership of a trademark is determined by who was first to use it, not by who was first to file an application for registration. However, under the new intent-to-use system, an application for registration can be filed prior to actual use of a mark.

FIRST TO INVENT [patent]. A rule under which patent priority is determined by which inventor was the first to actually invent, rather than by who was the first to file a patent application. This is the rule followed in the United States.

FUNCTIONALITY [patent-trademark-copyright]. That aspect of design that makes a product work better for its intended purpose, as opposed to making the product look better or to identifying its commercial source.

GOODWILL [trademark]. The value of a business or of a line of goods or services, beyond its tangible assets, that reflects its commercial reputation. A business with a well-established goodwill could have all its tangible assets destroyed yet still own its reputation – its goodwill. Since a trademark or service mark is a symbol of a business's goodwill, trademark infringement is a form of theft of goodwill.

INFRINGEMENT [general intellectual property]. An invasion of an exclusive right of intellectual property. Infringement of a utility patent involves making, using, or selling a patented product or process without permission. Infringement of a design patent involves fabrication of a design that, to the ordinary observer, is substantially the same as an existing design, where the resemblance is intended to induce the observer to purchase one thing supposing it to be another. Infringement of a trademark consists of the unauthorized use or imitation of a mark that is the property of another in order to deceive, confuse, or mislead others. Infringement of a copyright involves reproducing, adapting, distributing, performing in public, or displaying in public the copyrighted work of someone else.

INTELLECTUAL PROPERTY [patent-trademark-unfair competition-copyright-trade secret-moral rights]. Creative ideas and expressions of the human mind that have commercial value and receive the legal protection of a property right. The major legal mechanisms for protecting intellectual property rights are copyrights, patents, and trademarks. Intellectual property rights enable owners to select who may access and use their property and to protect it from unauthorized use.

INTENT-TO-USE APPLICATION [trademark]. Since 1989 in the United States, an optional method of applying for federal registration of a trademark based on a declared intention to use the mark on specific goods or services.

INVENTION [patent]. The creation of a new technical idea and of the physical means to accomplish or embody it. To be patentable, an invention must be novel, have utility, and differ from what skilled users might expect.

KNOW-HOW [trade secret]. Information that enables a person to accomplish a particular task or to operate a particular device or process.

LICENSE [patent-trademark-copyright]. A permission to use an intellectual property right within a defined time, context, market line, or territory. In intellectual property law, there are important distinctions between "exclusive licenses" and "nonexclusive licenses." An exclusive license is "exclusive" as to a defined scope; it is not the one and only license granted by a licensor. In giving an exclusive license, the licensor promises that he or she will not grant other licenses of the same rights within the same scope or field covered by the exclusive license. However, the owner of rights may grant any number of nonexclusive licenses of the same rights. In a nonexclusive license, title remains with the licensor. A patent license is a transfer of rights that does not amount to an assignment of the patent. A trademark or service mark can be validly licensed only if the licensor controls the nature and quality of the goods or services sold by the licensee under the licensed mark. Under copyright law, an exclusive licensee is the owner of a particular right of copyright, and he or she may sue for infringement of the licensed right. There is never more than a single copyright in a work regardless of the owner's exclusive license of various rights to different persons.

MISAPPROPRIATION [unfair competition]. A common law form of unfair competition in which an individual or firm copies or appropriates some creation of another that is not protected by patent, copyright, or trademark law, or any other traditional theory of exclusive rights.

MUSICAL WORK [copyright]. A category of copyrightable work expressed in notation for sounds. A musical work can be fixed in physical objects that are classified as either "copies" (e.g., sheet music) or "phonorecords" (e.g., compact discs or tapes). A composer's song is covered by a musical work copyright, but a recording of the song is covered by a sound recording copyright.

NOTICE [patent-copyright-trademark]. A formal sign or notification attached to items that embody or reproduce an intellectual property right – for example, placing the word "patent" or its abbreviation, "pat.," together with the patent number, on a patented article made by a patent holder or his/her licensees. The formal statutory notice of U.S. trademark registration is the letter R in a circle symbol -®-, "Reg. U.S. Pat. & Tm. Off.," or "Registered in U.S. Patent and Trademark Office." Many firms use informal trademark notices, such as "Brand," "TM," "Trademark," "SM," or "Service Mark," adjacent to words or other symbols considered to be protectable marks. Notice of copyright consists of the letter C in a circle symbol - © or the word "Copr." or "Copyright," the copyright owner's name, and the year of first publication.

NOVELTY [patent]. One of three conditions an invention must meet to be patentable. Novelty is present if every element of an invention is not disclosed in a single piece of prior art.

OBVIOUSNESS [patent]. A condition in which an invention cannot receive a valid patent because a person with ordinary skill in that technology can readily deduce it from publicly available information (prior art).

ORDINARY SKILL IN THE ART [patent]. The level of technical knowledge, experience, and expertise possessed by the ordinary engineer, scientist, or designer in a technology that is relevant to an invention.

PATENT [patent]. A grant by the federal government to an inventor of the right to exclude others from making, using, or selling his or her invention. There are three kinds of patents in the United States: a utility patent on the functional aspects of products and processes; a design patent on the ornamental design of useful objects; and a plant patent on a new variety of a living plant. Patents do not protect ideas, only structures and methods that apply technological concepts. Each type of patent confers the right to exclude others from a precisely defined scope of technology, industrial design, or plant variety. In return for the right to exclude, an inventor must fully disclose the details of the invention to the public so that others can understand it and use it to further develop the technology. Once the patent expires, the public is entitled to make and use the invention and is entitled to a full and complete disclosure of how to do so.

PERFORMANCE [copyright]. To recite, render, play, dance, or act a copyrighted work, including the radio or television broadcast of a performance and the reception of such a broadcast. The right to perform a copyrighted work publicly is granted to all types of copyrighted works except for pictorial and sculptural works and sound recordings.

PRIOR ART [patent]. The existing body of technological information against which an invention is judged to determine if it is novel and nonobvious and can thus be patented.

PUBLICATION [copyright]. The distribution of copies or phonorecords of a work to the public.

PUBLIC DOMAIN [general intellectual property]. The status of an invention, creative work, commercial symbol, or any other creation that is not protected by some form of intellectual property. Items that have been determined to be in the public domain are available for copying and use by anyone. The copying of such items is not only tolerated but encouraged as part of the competitive process.

RENEWAL [trademark-copyright]. The extension of a registration of a trademark or the extension of a copyright.

SECONDARY MEANING [trademark]. A meaning for a trademark or service mark that customers associate with a particular brand of products or services. For trade symbols that are not inherently distinctive, distinctiveness must be acquired in order to be protected by a trademark or service mark. This acquired distinctiveness is known as "secondary meaning" because it is acquired second in time to the primary meaning of a word. A word such as "best" for milk is regarded as descriptive and not inherently distinctive. The primary meaning is that milk thus described is purported to be the best. To achieve exclusive trademark rights for a product called "Best Milk," a seller using this word must use it so that it achieves a secondary meaning denoting that all milk marked "best" comes from a single commercial source.

SERVICE MARK [trademark]. A word, slogan, design, picture, or any other symbol used to identify and distinguish a service (hotel and restaurant services, sales services, investment services, and the like) as opposed to a product.

SKILL IN THE ART [patent]. An ordinary level of proficiency in the particular technology in which an invention is made.

SUGGESTIVE MARK [trademark]. A word, picture, or other symbol that suggests, but does not directly describe, something about a good or service in connection with which it is used as a mark. For example, "goliath" for wood pencils suggests, but does not literally describe, large size. A suggestive term is regarded as being inherently distinctive and needs no proof of secondary meaning for registration or protection in court.

TRADE DRESS [trademark]. The totality of elements in which a product or service is packaged, such as the shape and appearance of a product or container, the cover of a book or magazine, and the distinctive and recognizable shape of an automobile. These elements combine to create the visual image presented to customers and can acquire exclusive legal rights as a type of trademark or identifying symbol of origin.

TRADEMARK [trademark]. 1. A word, slogan, design, picture, or other symbol used to identify and distinguish goods. 2. Any identifying symbol, including a word, design, or shape of a product or container, that qualifies for legal status as a trademark, service mark, collective mark, certification mark, trade name, or trade dress. Trademarks identify one seller's goods and distinguish them from goods sold by others. They signify that all goods bearing the mark come from or are controlled by a single source and are of an equal level of quality. And they advertise, promote, and generally assist in selling goods. A trademark is infringed by another if the second use causes confusion of source, affiliation, connection, or sponsorship.

TRADE NAME [trademark]. A symbol used to identify and distinguish companies, partnerships, and businesses, as opposed to marks used to identify and distinguish goods or services.

TRADE SECRET [trade secret]. Business information that is the subject of reasonable efforts to preserve confidentiality and has value because it is not generally known in the trade. Such confidential information is protected against those who gain access to it through improper methods or by a breach of confidence. Infringement of a trade secret is a type of unfair competition.

UNFAIR COMPETITION [general intellectual property]. Commercial conduct that the law views as unjust, giving a civil claim against a person who has been injured by the conduct. Trademark infringement has long been considered to be unfair competition. Other recognized legal categories of unfair competition are false advertising, trade libel, infringement of a trade secret, infringement of the right of publicity, and misappropriation.

UTILITY [patent]. The usefulness of a patented invention. To be patentable, an invention must operate and be capable of use, and it must perform some "useful" function for society.

WORK MADE FOR HIRE [copyright]. A work prepared by an employee within the scope of his or her employment or a commissioned work that the parties agree in writing to treat as a work made for hire. The real person, partnership, or corporation for which the work is prepared is considered to be both the author and the owner of copyright from the moment of creation of the work.

SAMPLE LICENSE AGREEMENT²⁴¹

CONFIDENTIAL LICENSE AGREEMENT FOR GAME BOY ADVANCE (Western Hemisphere)

THIS LICENSE AGREEMENT ("Agreement") is entered into between NINTENDO OF AMERICA INC. ("NOA"), at 4820 150th Avenue N.E., Redmond, WA 98052 Attn: General Counsel (Fax: 425-882-3585) and Acclaim Entertainment, Inc., ("LICENSEE") at One Acclaim Plaza, Glen Cove, NY 11542-2708 Attn: Johnny Ma (Fax: (516) 656-2040). NOA and LICENSEE agree as follows:

1. RECITALS

1.1 NOA markets and sells advanced design, high-quality video game systems, including the GAME BOY(R)ADVANCE system.

1.2 LICENSEE desires a license to use highly proprietary programming specifications, development tools, trademarks and other valuable intellectual property rights of NOA and its parent company, Nintendo Co., Ltd. (collectively "Nintendo"), to develop, have manufactured, advertise, market and sell video game software for play on the GAME BOY ADVANCE system.

1.3 NOA is willing to grant a license to LICENSEE on the terms and conditions set forth in this Agreement.

2. DEFINITIONS

2.1 "Artwork" means the design specifications for the Game Cartridge label and Printed Materials in the format specified by NOA in the Guidelines.

2.2 "Development Tools" means the development kits, programming tools, emulators, and other materials that may be used in the development of Games under this Agreement.

2.3 "Effective Date" means the last date on which all parties shall have signed this Agreement.

2.4 "Finished Product(s)" means the fully assembled and shrink-wrapped Licensed Products, each including a Game Cartridge, Game Cartridge label and Printed Materials.

2.5 "Game Cartridges(s)" means custom cartridges specifically manufactured under the terms of this Agreement for play on the GAME BOY ADVANCE system, incorporating semiconductor components in which a Game has been stored.

2.6 "Game(s)" means interactive video game programs (including source and object/binary code) developed for play on the GAME BOY ADVANCE system.

2.7 "Guidelines" means the current version or any future revision of the "Game Boy Packaging Guidelines", "Nintendo Trademark Guidelines", "Game Boy Advance Development Manual" and related guidelines.

2.8 "Independent Contractor" means any individual or entity that is not an employee of LICENSEE, including any independent programmer, consultant, contractor, board member or advisor.

2.9 "Intellectual Property Rights" means individually, collectively or in

²⁴¹ Onecle, Confidential License Agreement for Game Boy Advance - Nintendo of America Inc. and Acclaim Entertainment Inc. (Jul 19, 2001) available at <<http://contracts.onecle.com/type/32.shtml>>, (last visited November 22, 2005)

any combination, Proprietary Rights owned, licensed or otherwise held by Nintendo that are associated with the development, manufacturing, advertising, marketing or sale of the Licensed Products, including, without limitation, (a) registered and unregistered trademarks and trademark applications used in connection with video games for play on the GAME BOY ADVANCE system including "Nintendo(R)", "GAME BOY(R) ADVANCE," "AGB" and the "Official Nintendo Seal of Quality(R)", (b) select trade dress associated with the GAME BOY ADVANCE system and licensed video games for play thereon, (c) Proprietary Rights in the Security Technology incorporated into the Game Cartridges, (d) rights in the Development Tools for use in developing the Games, (e) patents or design registrations associated with the Game Cartridges, (f) copyrights in the Guidelines, and (g) other Proprietary Rights of Nintendo in Confidential Information.

2.10 "Licensed Products" means (a) Finished Products, or (b) Stripped Products when fully assembled and shrink-wrapped with the Printed Materials.

2.11 "Marketing Materials" means marketing, advertising or promotional materials developed by or for LICENSEE (or subject to LICENSEE's approval) to promote the sale of the Licensed Products, including, but not limited to, television, radio and on-line advertising, point-of-sale materials (e.g. posters, counter-cards), package advertising and print media or materials.

2.12 "NDA" means the non-disclosure agreement providing for the protection of Confidential Information related to the GAME BOY ADVANCE system previously entered into between NOA and LICENSEE.

2.13 "Notice" means any notice permitted or required under this Agreement. All notices shall be sufficiently given when (a) personally served or delivered, or (b) transmitted by facsimile, with an original sent concurrently by first class U.S. mail, or (c) deposited, postage prepaid, with a guaranteed air courier service, in each case addressed as stated herein, or addressed to such other person or address either party may designate in a Notice. Notice shall be deemed effective upon the earlier of actual receipt or two (2) business days after transmittal.

2.14 "Price Schedule" means the current version or any future revision of NOA's schedule of purchase prices and minimum order quantities for the Licensed Products.

2.15 "Printed Materials" means the box, user instruction booklet, poster, warranty card and LICENSEE inserts incorporating the Artwork, together with a precautions booklet as specified by NOA.

2.16 "Proprietary Rights" means any rights or applications for rights owned, licensed or otherwise held in patents, trademarks, service marks, copyrights, mask works, trade secrets, trade dress, moral rights and publicity rights, together with all inventions, discoveries, ideas, technology, know-how, data, information, processes, formulas, drawings and designs, licenses, computer programs, software source code and object code, and all amendments, modifications, and improvements thereto for which such patent, trademark, service mark, copyright, mask work, trade secrets, trade dress, moral rights or publicity rights may exist or may be sought and obtained in the future.

2.17 "Reverse Engineer(ing)" means, without limitation, (a) the x-ray, electronic scanning or physical or chemical stripping of semiconductor components, (b) the disassembly, decompilation, decryption or simulation of object code or executable code, or (c) any other technique designed to extract source code or facilitate the duplication of a program or product.

2.18 "Security Technology" means, without limitation, any security signature, bios, data scrambling, password, hardware security apparatus, watermark, hologram, copyright management information system or any feature which facilitates or limits compatibility with other hardware or software

outside of the Territory or on a different video game system.

2.19 "Stripped Product(s)" means the Game Cartridges with Game Cartridge labels affixed.

2.20 "Term" means three (3) years from the Effective Date.

2.21 "Territory" means all countries within the Western Hemisphere and their respective territories and possessions.

3. GRANT OF LICENSE; LICENSEE RESTRICTIONS

3.1 Limited License Grant. For the Term and for the Territory, NOA grants to LICENSEE a nonexclusive, nontransferable, limited license to use the Intellectual Property Rights to develop Games for manufacture, advertising, marketing and sale as Licensed Products, subject to the terms and conditions of this Agreement. Except as permitted under a separate written authorization from Nintendo, LICENSEE shall not use the Intellectual Property Rights for any other purpose.

3.2 LICENSEE Acknowledgement. LICENSEE acknowledges (a) the value of the Intellectual Property Rights, (b) the right, title, and interest of Nintendo in and to the Intellectual Property Rights, and (c) the right, title and interest of Nintendo in and to the Proprietary Rights associated with all aspects of the GAME BOY ADVANCE system. LICENSEE recognizes that the Games, Game Cartridges and Licensed Products will embody valuable rights of Nintendo and Nintendo's licensors. LICENSEE represents and warrants that it will not undertake any act or thing which in any way impairs or is intended to impair any part of the right, title, interest or goodwill of Nintendo in the Intellectual Property Rights. LICENSEE's use of the Intellectual Property Rights shall not create any right, title or interest of LICENSEE therein.

3.3 LICENSEE Restrictions and Prohibitions. LICENSEE represents and warrants that it will not at any time, directly or indirectly, do or cause to be done any of the following:

(a) grant access to, distribute, transmit or broadcast a Game by electronic means or by any other means known or hereafter devised, including, without limitation, by wireless, cable, fiber optic, telephone lines, microwave, radiowave, computer or other device network; provided, however, that limited transmissions may be made for the sole purpose of facilitating development under the terms of this Agreement, but no right of retransmission shall attach to any such authorized transmission and, reasonable security measures, customary within the high technology industry, shall be utilized to reduce the risk of unauthorized interception or retransmission of any such authorized transmission,

(b) authorize or permit any online activities involving a Game, including, without limitation, multiplayer, peer-to-peer or online play,

(c) modify, install or operate a Game on any server or computing device for the purpose of or resulting in the rental, lease, loan or other grant of remote access to the Game,

(d) emulate, interoperate, interface or link a Game for operation or use with any hardware or software platform, accessory, computer language, computer environment, chip instruction set, consumer electronics device or device other than the GAME BOY ADVANCE system or the Development Tools,

(e) embed, incorporate, or store a Game in any media or format except the cartridge format utilized by the GAME BOY ADVANCE system, except as may be necessary as a part of the Game development process under this Agreement,

(f) design, implement or undertake any process, procedure, program or

act designed to circumvent the Security Technology,

(g) utilize the Intellectual Property Rights to design or develop any interactive video game program, except as authorized under this Agreement,

(h) manufacture or reproduce a Game developed under this Agreement, except through Nintendo, or

(i) Reverse Engineer or assist in the Reverse Engineering of all or any part of the GAME BOY ADVANCE system, including the hardware or software (whether embedded or otherwise), or the Security Technology.

3.4 Development Tools. Nintendo may lease, loan or sell Development Tools to LICENSEE to assist in the development of Games under this Agreement. Ownership and use of any Development Tools provided to LICENSEE by Nintendo shall be subject to the terms of this Agreement. LICENSEE acknowledges the exclusive interest of Nintendo in and to the Proprietary Rights associated with the Development Tools. LICENSEE's use of the Development Tools shall not create any right, title or interest of LICENSEE therein. LICENSEE shall not, directly or indirectly, (a) use the Development Tools for any purpose except the design and development of Games under this Agreement, (b) reproduce or create derivatives of the Development Tools, except in association with the development of Games under this Agreement, (c) Reverse Engineer the Development Tools, or (d) sell, lease, assign, lend, license, encumber or otherwise transfer the Development Tools. Any tools developed or derived by LICENSEE as a result of a study of the performance, design or operation of the Development Tools shall be considered derivative works of the Intellectual Property Rights, but may be retained and utilized by LICENSEE in connection with this Agreement. In no event shall LICENSEE (i) seek, claim or file for any patent, copyright or other Proprietary Right with regard to any such derivative work, (ii) make available any such derivative work to any third party, or (iii) use any such derivative work except in connection with the design and development of Games under this Agreement.

4. SUBMISSION OF GAME AND ARTWORK FOR APPROVAL

4.1 Development and Sale of the Games. LICENSEE may develop Games and have manufactured, advertise, market and sell Licensed Products for play on the GAME BOY ADVANCE system only in accordance with this Agreement.

4.2 Third Party Developers. LICENSEE shall not disclose the Confidential Information, the Guidelines or the Intellectual Property Rights to any Independent Contractor, nor permit any Independent Contractor to perform or assist in development work for a Game, unless and until such Independent Contractor has been approved by NOA and has executed a written confidentiality agreement with NOA relating to the GAME BOY ADVANCE system.

4.3 Delivery of Completed Game. Upon completion of a Game, LICENSEE shall deliver a prototype of the Game to NOA in a format specified in the Guidelines, together with written user instructions, a complete description of any security holes, backdoors, time bombs, cheats, "easter eggs" or other hidden features or characters in the Game and a complete screen text script. NOA shall promptly evaluate the Game with regard to (a) its technical compatibility with and error-free operation on the GAME BOY ADVANCE system, and (b) its compliance with the game content guidelines of the Entertainment Software Ratings Board ("ESRB"). LICENSEE shall provide NOA with a certificate of a rating for the Game from the ESRB other than "AO" or "ADULTS ONLY".

4.4 Approval of Completed Game. NOA shall, within a reasonable period of time after receipt, approve or disapprove each submitted Game. If a Game is disapproved, NOA shall specify in writing the reasons for such disapproval and state what corrections or improvements are necessary. After making the necessary corrections or improvements, LICENSEE shall submit a revised Game to NOA for

approval. NOA shall not unreasonably withhold or delay its approval of any Game. The approval of a Game by NOA shall not relieve LICENSEE of its sole responsibility for the development, quality and operation of the Game or in any way create any warranty for a Game or a Licensed Product by NOA.

4.5 Submission of Artwork. Upon submission of a completed Game to NOA, LICENSEE shall prepare and submit to NOA the Artwork for the proposed Licensed Product. Within ten (10) business days of receipt, NOA shall approve or disapprove the Artwork. If any Artwork is disapproved, NOA shall specify in writing the reasons for such disapproval and state what corrections or improvements are necessary. After making the necessary corrections or improvements, LICENSEE shall submit revised Artwork to NOA for approval. NOA shall not unreasonably withhold or delay its approval of any Artwork. The approval of the Artwork by NOA shall not relieve LICENSEE of its sole responsibility for the development and quality of the Artwork or in any way create any warranty for the Artwork or the Licensed product by NOA.

4.6 Artwork for Stripped Product. If LICENSEE submits an order for Stripped Product, all Artwork shall be submitted to NOA in advance of NOA's acceptance of the order and no production of Printed Materials shall occur until such Artwork has been approved by NOA under Section 4.5 herein.

5. ORDER PROCESS, PURCHASE PRICE, PAYMENT AND DELIVERY

5.1 Submission of Orders by LICENSEE. LICENSEE may at any time submit written purchase orders to NOA for any approved Licensed Product title. The purchase order shall specify whether it is for Finished Product or Stripped Product. The terms and conditions of this Agreement shall control over any contrary terms of such purchase order or any other written documents submitted by LICENSEE. All orders are subject to acceptance by NOA in Redmond, WA.

5.2 Purchase Price and Minimum Order Quantities. The purchase price and minimum order quantities for the Licensed Products shall be set forth in NOA's then current Price Schedule. The purchase price includes the cost of manufacturing together with a royalty for the use of the Intellectual Property Rights. No taxes, duties, import fees or other tariffs related to the development, manufacture, import, marketing or sale of the Licensed Products are included in the purchase price and all such taxes are the responsibility of LICENSEE (except for taxes imposed on NOA's income). The Price Schedule is subject to change by NOA at any time without Notice.

5.3 Payment. Upon placement of an order with NOA, LICENSEE shall pay the full purchase price to NOA either (a) by placement of an irrevocable letter of credit in favor of NOA and payable at sight, issued by a bank acceptable to NOA and confirmed, if requested by NOA, at LICENSEE's expense, or (b) in cash, by wire transfer to NOA's designated account. All associated banking charges shall be for LICENSEE's account.

5.4 Shipment and Delivery. The Licensed Products shall be delivered F.O.B. Japan or such other delivery point specified by NOA, with shipment at LICENSEE's direction and expense. Orders may be delivered by NOA in partial shipments, each directed to not more than two (2) destinations designated by LICENSEE within the Territory. Title to the Licensed Products shall vest in accordance with the terms of the applicable letter of credit or, in the absence thereof, at the point of delivery.

6. MANUFACTURE OF THE LICENSED PRODUCT

6.1 Manufacturing. Nintendo Co., Ltd. shall be the exclusive source for the manufacture of the Game Cartridges, with responsibility for all aspects of the manufacturing process, including the selection of the locations and specifications for any manufacturing facilities, determination of materials and processes, appointment of suppliers and subcontractors and management of all

work-in-progress. Confidential information omitted where indicated by "[*]" and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

6.2 Manufacture of the Licensed Products. Upon acceptance by NOA of a purchase order for an approved Licensed Product title and payment as provided for under Section 5.3 herein, NOA (through Nintendo Co., Ltd., and/or its subcontractors), will arrange for the manufacture of Finished Product or Stripped Product, as specified in LICENSEE's purchase order.

6.3 Security Features. The final release version of the Game, Game Cartridges and Printed Materials shall include such Security Technology as Nintendo, in its sole discretion, may deem necessary or appropriate.

6.4 Production of Stripped Product Printed Materials. For Stripped Product, LICENSEE shall arrange and pay for the production of the Printed Materials using the Artwork. Upon receipt of an order of Stripped Product, LICENSEE shall assemble the Game Cartridges and Printed Materials into the Licensed Products. Licensed Products may be sold or otherwise distributed by LICENSEE only in fully assembled and shrink-wrapped condition.

6.5 Prior Approval of LICENSEE's Independent Contractor. Prior to the placement of a purchase order for Stripped Product, LICENSEE shall obtain NOA's approval of any Independent Contractors selected to perform the production and assembly operations. LICENSEE shall provide NOA with the names, addresses and all business documentation reasonably requested by NOA for such Independent Contractors. NOA may, prior to approval and at reasonable intervals thereafter, (a) require submission of additional business or financial information regarding the Independent Contractors, (b) inspect the facilities of the Independent Contractors, and (c) be present to supervise any work on the Licensed Products to be done by the Independent Contractors. If at any time NOA deems an Independent Contractor to be unable to meet quality, security or performance standards reasonably established by NOA, NOA may refuse to grant its approval or withdraw its approval upon Notice to LICENSEE. LICENSEE may not proceed with the production of the Printed Materials or assembly of the Licensed Product until NOA's concerns have been resolved to its satisfaction or until LICENSEE has selected and received NOA's approval of another Independent Contractor.

6.6 NOA Inserts for Stripped Product. NOA, at its option, may provide LICENSEE with NOA produced promotional materials (as provided for at Section 7.7(a) herein), which LICENSEE agrees to include in the assembly of the Licensed Products.

6.7 Sample Printed Materials and Stripped Product. Within a reasonable period of time after LICENSEE's assembly of the initial order for a Stripped Product title, LICENSEE shall provide NOA with (a) [*] sample of the fully assembled, shrink-wrapped Licensed Product, and (b) [*] samples of LICENSEE produced Printed Materials for such Licensed Product.

6.8 Retention of Sample Licensed Products by Nintendo. Nintendo may, at its own expense, manufacture reasonable quantities of the Game Cartridges or the Licensed Products to be used for archival purposes, legal proceedings against infringers of the Intellectual Property Rights or for other lawful purposes.

7. MARKETING AND ADVERTISING

7.1 Approval of Marketing Materials. LICENSEE represents and warrants that the Marketing Materials shall (a) be of high quality and comply with the Guidelines, (b) comply with all voluntary ESRB advertising, marketing or merchandising guidelines, and (c) comply with all applicable laws and regulations in those jurisdictions in the Territory where they will be used or distributed. Prior to actual use or distribution, LICENSEE shall submit to NOA for review samples of all proposed Marketing Materials. NOA shall, within ten

(10) business days of receipt, approve or disapprove the quality of such samples. If any of the samples are disapproved, NOA shall specify the reasons for such disapproval and state what corrections and/or improvements are necessary. After making the necessary corrections and/or improvements, LICENSEE shall submit revised samples for approval by NOA. No Marketing Materials shall be used or distributed by LICENSEE without NOA's prior written approval. NOA shall not unreasonably withhold or delay its approval of any proposed Marketing Materials.

7.2 No Bundling. LICENSEE shall not market or distribute any Finished Product or Stripped Product that has been bundled with (a) any peripheral designed for use with the GAME BOY ADVANCE system which has not been licensed or approved in writing by NOA, or (b) any other product or service where NOA's sponsorship, association, approval or endorsement might be suggested by the bundling of the products or services.

7.3 Warranty and Repair. LICENSEE shall provide the original consumer with a minimum ninety (90) day limited warranty on all Licensed Products. LICENSEE shall also provide reasonable product service, including out-of-warranty service, for all Licensed Products.

7.4 Business Facilities. LICENSEE agrees to develop and maintain (a) suitable office facilities within the United States, adequately staffed to enable LICENSEE to fulfill all responsibilities under this Agreement, (b) necessary warehouse, distribution, marketing, sales, collection and credit operations to facilitate proper handling of the Licensed Products, and (c) customer service and game counseling, including telephone service, to adequately support the Licensed Products.

7.5 No Sales Outside the Territory. LICENSEE represents and warrants that it shall not market, sell, offer to sell, import or distribute the Licensed Products outside the Territory, or within the Territory when with actual or constructive knowledge that a subsequent destination of the Licensed Product is outside the Territory.

7.6 Defects and Recall. In the event of a material programming defect in a Licensed Product that would, in NOA's reasonable judgment, significantly impair the ability of a consumer to play the Game, NOA may, after consultation with LICENSEE, require the LICENSEE to recall the Licensed Product and undertake suitable repairs or replacements.

7.7 NOA Promotional Materials, Publications and Events. At its option, NOA may (a) insert in the Printed Materials for the Licensed Products promotional materials concerning Nintendo Power magazine or other NOA products, services or programs, (b) utilize screen shots, Artwork and information regarding the Licensed Products in Nintendo Power, Nintendo Power Source or other advertising, promotional or marketing media which promotes Nintendo products, services or programs, and (c) exercise public performance rights in the Games and use related trademarks and Artwork in connection with NOA sponsored contests, tours, conventions, trade shows, press briefings and similar events which promote the GAME BOY ADVANCE system.

7.8 Nintendo Gateway System. To promote and increase demand for games on Nintendo video game systems, NOA licenses a system (the "Nintendo Gateway System") in various non-coin activated commercial settings such as commercial airlines, cruise ships, rail systems and hotels, where customers play games on specially adapted Nintendo video game systems. If NOA identifies a Game for possible license on the Nintendo Gateway System, the parties agree to conduct good faith negotiations toward including the Game in the Nintendo Gateway System.

8. CONFIDENTIAL INFORMATION

8.1 Definition. "Confidential Information" means information provided to LICENSEE by Nintendo or any third party working with Nintendo relating to the hardware and software for the GAME BOY ADVANCE system or the Development Tools, including, but not limited to, (a) all current or future information, know-how, techniques, methods, information, tools, emulator hardware or software, software development specifications, and/or trade secrets, (b) any patents or patent applications, (c) any business, marketing or sales data or information, and (d) any other information or data relating to development, design, operation, manufacturing, marketing or sales. Confidential Information shall include all confidential information disclosed, whether in writing, orally, visually, or in the form of drawings, technical specifications, software, samples, pictures, models, recordings, or other tangible items which contain or manifest, in any form, the above listed information. Confidential Information shall not include (i) data and information which was in the public domain prior to LICENSEE's receipt of the same hereunder, or which subsequently becomes part of the public domain by publication or otherwise, except by LICENSEE's wrongful act or omission, (ii) data and information which LICENSEE can demonstrate, through written records kept in the ordinary course of business, was in its possession without restriction on use or disclosure, prior to its receipt of the same hereunder and was not acquired directly or indirectly from Nintendo under an obligation of confidentiality which is still in force, and (iii) data and information which LICENSEE can show was received by it from a third party who did not acquire the same directly or indirectly from Nintendo and to whom LICENSEE has no obligation of confidentiality.

8.2 Disclosures Required by Law. LICENSEE shall be permitted to disclose Confidential Information if such disclosure is required by an authorized governmental or judicial entity, provided that NOA is given Notice thereof at least thirty (30) days prior to such disclosure. LICENSEE shall use its best efforts to limit the disclosure to the greatest extent possible consistent with LICENSEE's legal obligations, and if required by NOA, shall cooperate in the preparation and entry of appropriate protective orders.

8.3 Disclosure and Use. NOA may provide LICENSEE with highly confidential development information, Guidelines, Development Tools, systems, specifications and related resources and information constituting and incorporating the Confidential Information to assist LICENSEE in the development of Games. LICENSEE agrees to maintain all Confidential Information as strictly confidential and to use such Confidential Information only in accordance with this Agreement. LICENSEE shall limit access to the Confidential Information to LICENSEE's employees having a strict need to know and shall advise such employees of their obligation of confidentiality as provided herein. LICENSEE shall require each such employee to retain in confidence the Confidential Information pursuant to a written non-disclosure agreement between LICENSEE and such employee. LICENSEE shall use its best efforts to ensure that its employees working with or otherwise having access to Confidential Information shall not disclose or make any unauthorized use of the Confidential Information.

8.4 No Disclosure to Independent Contractors. LICENSEE shall not disclose the Confidential Information to any Independent Contractor without the prior written consent of NOA. Any Independent Contractor seeking access to Confidential Information shall be required to enter into a written non-disclosure agreement with NOA prior to receiving any access to or disclosure of the Confidential Information from either LICENSEE or NOA.

8.5 Agreement Confidentiality. LICENSEE agrees that the terms, conditions and contents of this Agreement shall be treated as Confidential Information. Any public announcement or press release regarding this Agreement or the release dates for Games developed by LICENSEE under this Agreement shall be subject to NOA's prior written approval. The parties may disclose this Agreement (a) to accountants, banks, financing sources, lawyers, parent companies and related parties under substantially equivalent confidentiality obligations, (b) in connection with any formal legal proceeding for the enforcement of this

Agreement, (c) as required by the regulations of the Securities and Exchange Commission ("SEC"), provided that all Confidential Information regarding NOA shall be redacted from such disclosures to the maximum extent allowed by the SEC, and (d) in response to lawful process, subject to a written protective order approved in advance by NOA.

8.6 Notification Obligations. LICENSEE shall promptly notify NOA of the unauthorized use or disclosure of any Confidential Information and shall promptly act to recover any such information and prevent further breach of the obligations herein. The obligations of LICENSEE set forth herein are in addition to and not in lieu of any other legal remedy that may be available to NOA under this Agreement or applicable law.

8.7 Continuing Effect of the NDA. The terms of this Section 8 supplement the terms of the NDA, which shall remain in effect. In the event of a conflict between the terms of the NDA and this Agreement, the terms of this Agreement shall control.

9. REPRESENTATIONS AND WARRANTIES

9.1 LICENSEE's Representations and Warranties. LICENSEE represents and warrants that:

(a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof,

(b) the execution, delivery and performance of this Agreement by LICENSEE does not conflict with any agreement or understanding to which LICENSEE may be bound, and

(c) excluding the Intellectual Property Rights, LICENSEE is either (i) the sole owner of all right, title and interest in and to the trademarks, copyrights and other intellectual property rights used on or in association with the development, advertising, marketing and sale of the Licensed Products and the Marketing Materials, or (ii) the holder of such rights to the trademarks, copyrights and other intellectual property rights which have been licensed from a third party as are necessary for the development, advertising, marketing and sale of the Licensed Products and the Marketing Materials under this Agreement.

9.2 NOA's Representations and Warranties. NOA represents and warrants that:

(a) it is a duly organized and validly existing corporation and has full authority to enter into this Agreement and to carry out the provisions hereof, and

(b) the execution, delivery and performance of this Agreement by NOA does not conflict with any agreement or understanding to which NOA may be bound.

9.3 INTELLECTUAL PROPERTY RIGHTS DISCLAIMER BY NOA. NOA MAKES NO REPRESENTATION OR WARRANTY CONCERNING THE SCOPE OR VALIDITY OF THE INTELLECTUAL PROPERTY RIGHTS. NOA DOES NOT WARRANT THAT THE DESIGN, DEVELOPMENT, ADVERTISING, MARKETING OR SALE OF THE LICENSED PRODUCTS OR THE USE OF THE INTELLECTUAL PROPERTY RIGHTS BY LICENSEE WILL NOT INFRINGE UPON PATENT, COPYRIGHT, TRADEMARK OR OTHER PROPRIETARY RIGHTS OF A THIRD PARTY. ANY WARRANTY THAT MAY BE PROVIDED IN ANY APPLICABLE PROVISION OF THE UNIFORM COMMERCIAL CODE OR ANY OTHER COMPARABLE LAW OR STATUTE IS EXPRESSLY DISCLAIMED. LICENSEE HEREBY ASSUMES THE RISK OF INFRINGEMENT.

9.4 GENERAL DISCLAIMER BY NOA. NOA DISCLAIMS ANY AND ALL WARRANTIES WITH RESPECT TO THE LICENSED PRODUCTS, INCLUDING, WITHOUT LIMITATION, THE SECURITY TECHNOLOGY. LICENSEE PURCHASES AND ACCEPTS ALL LICENSED PRODUCTS ON AN "AS IS" AND "WHERE IS" BASIS. NOA DISCLAIMS ALL WARRANTIES UNDER THE APPLICABLE LAWS OF

ANY COUNTRY, EXPRESS OR IMPLIED, INCLUDING IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A GENERAL OR PARTICULAR PURPOSE.

9.5 LIMITATION OF LIABILITY. TO THE MAXIMUM EXTENT PERMITTED BY LAW, NEITHER NOA NOR NINTENDO CO., LTD. (OR THEIR RESPECTIVE AFFILIATES, LICENSORS OR SUPPLIERS) SHALL BE LIABLE FOR LOSS OF PROFITS, OR FOR ANY SPECIAL, PUNITIVE, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF LICENSEE OR ITS CUSTOMERS ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE BREACH OF THIS AGREEMENT BY NOA, THE MANUFACTURE OF THE LICENSED PRODUCTS OR THE USE OF THE LICENSED PRODUCTS ON ANY NINTENDO VIDEO GAME SYSTEM BY LICENSEE OR ANY END USER.

Confidential information omitted where indicated by "[*]" and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

10. INDEMNIFICATION

10.1 LICENSEE's Indemnification. LICENSEE shall indemnify and hold harmless NOA and Nintendo Co., Ltd. (and any of their respective affiliates, subsidiaries, licensors, suppliers, officers, directors, employees or agents) from any claims, losses, liabilities, damages, expenses and costs, including, without limitation, reasonable attorneys' fees and costs and any expenses incurred in the settlement or avoidance of any such claim, which result from or are in connection with:

(a) a breach of any of the provisions, representations or warranties undertaken by LICENSEE in this Agreement,

(b) any infringement of a third party's Proprietary Rights as a result of the design, development, advertising, marketing, sale or use of the Licensed Products or the Marketing Materials,

(c) any claims alleging a defect, failure to warn, bodily injury (including death) or other personal or property damage arising out of, or in connection with, the design, development, advertising, marketing, sale or use of any of the Licensed Products, and

(d) any federal, state or foreign civil or criminal actions relating to the design, development, advertising, marketing, sale or use of the Licensed Products or the Marketing Materials.

NOA and LICENSEE shall give prompt Notice to the other of any indemnified claim under this Section 10.1. With respect to any third party claim subject to this indemnity clause, LICENSEE, as indemnitor, shall have the right to select counsel and to control the defense and/or settlement thereof. NOA may, at its own expense, participate in such action or proceeding with counsel of its own choice. LICENSEE shall not enter into any settlement of any such claim in which (i) NOA or Nintendo Co., Ltd. has been named as a party, or (ii) claims relating to the Intellectual Property Rights have been asserted, without NOA's prior written consent. NOA shall provide reasonable assistance to LICENSEE in its defense of any such claim.

10.2 LICENSEE's Insurance. LICENSEE shall, at its own expense, obtain a comprehensive policy of general liability insurance (including coverage for advertising injury and product liability claims) from a recognized insurance company. Such policy of insurance shall be in an amount of not less than [*] on a per occurrence basis and shall provide for adequate protection against any suits, claims, loss or damage by the Licensed Products. Such policy shall name NOA and Nintendo Co., Ltd. as additional insureds and shall specify that it may not be canceled without thirty (30) days' prior written Notice to NOA. A Certificate of Insurance shall be provided to NOA's Licensing Department not

later than the date of the initial order of Licensed Products under this Agreement. If LICENSEE fails to maintain such insurance at any time during the Term and for a period of two (2) years thereafter, NOA may secure such insurance at LICENSEE's expense.

10.3 Suspension of Production. In the event NOA deems itself at risk with respect to any claim, action or proceeding under this Section 10, NOA may, at its sole option, suspend production, delivery or order acceptance for any Licensed Products, in whole or in part, pending resolution of such claim, action or proceeding.

11. PROTECTION OF PROPRIETARY RIGHTS

11.1 Joint Actions Against Infringers. LICENSEE and NOA may agree to jointly pursue cases of infringement involving of the Licensed Products, as such Licensed Products will contain Proprietary Rights owned by each of them. Unless the parties otherwise agree, or unless the recovery is expressly allocated between them by the court, in the event of such an action, any recovery shall be used first to reimburse LICENSEE and NOA for their respective reasonable attorneys' fees and costs incurred in bringing such action, pro rata, and any remaining recovery shall be distributed to LICENSEE and NOA, pro rata, based upon the fees and costs incurred in bringing such action.

11.2 Actions by LICENSEE. LICENSEE, without the consent of NOA, may bring any action or proceeding relating to an infringement or potential infringement of LICENSEE's Proprietary Rights in the Licensed Products. LICENSEE shall make reasonable efforts to inform NOA of such actions in a timely manner. LICENSEE will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

11.3 Actions by NOA. NOA, without the consent of LICENSEE, may bring any action or proceeding relating to an infringement or potential infringement of NOA's Intellectual Property Rights in the Licensed Products. NOA shall make reasonable efforts to inform LICENSEE of such actions in a timely manner. NOA will have the right to retain all proceeds it may derive from any recovery in connection with such actions.

12. ASSIGNMENT

12.1 No Assignment by LICENSEE. This Agreement is personal to LICENSEE and may not be sold, assigned, delegated, sublicensed or otherwise transferred or encumbered, in whole or in part, without NOA's prior written consent, which consent may be withheld by NOA in its sole discretion. In the event of an assignment or other transfer in violation of this Agreement, NOA shall have the unqualified right to immediately terminate this Agreement without further obligation to LICENSEE.

12.2 Assignment by Operation of Law. In the event of an assignment of this Agreement by operation of law, LICENSEE shall, not later than thirty (30) days thereafter, give Notice and seek consent thereto from NOA. Such Notice shall disclose the name of the assignee, the effective date and the nature and extent of the assignment. An assignment by operation of law includes, but is not limited to (a) a merger of LICENSEE into another business entity or a merger of another business entity into LICENSEE, (b) the sale, assignment or transfer of all or substantially all of the assets of LICENSEE to a third party, (c) the sale, assignment or transfer to a third party of any of LICENSEE's intellectual property rights which are used in the development of or are otherwise incorporated into any Licensed Products, or (d) the sale, assignment or transfer of any of LICENSEE's stock resulting in the acquirer having management power over or voting control of LICENSEE. Following the later of (i) such an assignment by operation of law, or (ii) receipt of Notice therefor, NOA shall have the unqualified right for a period of ninety (90) days to immediately terminate this Agreement without further obligation to LICENSEE.

Confidential information omitted where indicated by "[*]" and filed separately with the Commission pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

12.3 Non-Disclosure Obligation. In no event shall LICENSEE disclose or allow access to NOA's Confidential Information prior to or upon the occurrence of an assignment, whether by operation of law or otherwise, unless and until NOA gives its written consent to such disclosure.

13. TERM AND TERMINATION

13.1 Term. This Agreement shall commence on the Effective Date and continue for the Term, unless earlier terminated as provided for herein.

13.2 Default or Breach. In the event that either party is in default or commits a breach of this Agreement, which is not cured within thirty (30) days after Notice thereof, then this Agreement shall automatically terminate on the date specified in such Notice.

13.3 Bankruptcy. At NOA's option, this Agreement may be terminated immediately and without Notice in the event that LICENSEE (a) makes an assignment for the benefit of creditors, (b) becomes insolvent, (c) files a voluntary petition for bankruptcy, (d) acquiesces to any involuntary bankruptcy petition, (e) is adjudicated as a bankrupt, or (f) ceases to do business.

13.4 Termination Other Than by Breach. Upon the expiration of this Agreement or its termination other than by LICENSEE's breach, LICENSEE shall have a period of [*] days to sell any unsold Licensed Products. All Licensed Products in LICENSEE's control following the expiration of such sell-off period shall be destroyed by LICENSEE within ten (10) days and proof of such destruction (certified by an officer of LICENSEE) shall be provided to NOA.

13.5 Termination by LICENSEE's Breach. If this Agreement is terminated by NOA as a result of a breach of its terms and conditions by LICENSEE, LICENSEE shall immediately cease all distribution, advertising, marketing or sale of any Licensed Products. All Licensed Products in LICENSEE's control as of the date of such termination shall be destroyed by LICENSEE within ten (10) days and proof of such destruction (certified by an officer of LICENSEE) shall be provided to NOA.

13.6 Breach of NDA or Other NOA License Agreements. At NOA's option, any breach by LICENSEE of (a) the NDA, or (b) any other license agreement between NOA and LICENSEE relating to the development of games for any Nintendo video game system which is not cured within the time period for cure allowed under the applicable agreement, shall be considered a material breach of this Agreement entitling NOA to terminate this Agreement in accordance with Section 13.5 herein.

13.7 No Further Use of the Intellectual Property Rights. Upon expiration and/or termination of this Agreement, LICENSEE shall cease all use of the Intellectual Property Rights for any purpose, except as may be required in connection with the sale of Licensed Products authorized under Section 13.4 herein. LICENSEE shall, within thirty (30) days thereafter, return or destroy all Guidelines, writings, drawings, models, data, tools and other materials and things in LICENSEE's possession or in the possession of any past or present employee, agent or contractor receiving the information through LICENSEE, which constitute or relate to or disclose any Confidential Information, without making copies or otherwise retaining any such information. Proof of any destruction shall be certified by an officer of LICENSEE and promptly provided to NOA.

13.8 Termination by NOA's Breach. If this Agreement is terminated by

LICENSEE as a result of a breach of its terms or conditions by NOA, LICENSEE may continue to sell the Licensed Products in the Territory until the expiration of the Term, at which time the provisions of Section 13.4 shall apply.

14. GENERAL PROVISIONS

14.1 Export Control. LICENSEE agrees to comply with the export laws and regulations of the United States and any other country with jurisdiction over the Licensed Products and/or either party.

14.2 Force Majeure. Neither party shall be liable for any breach of this Agreement occasioned by any cause beyond the reasonable control of such party, including governmental action, war, riot or civil commotion, fire, natural disaster, labor disputes, restraints affecting shipping or credit, delay of carriers, inadequate supply of suitable materials or any other cause which could not with reasonable diligence be controlled or prevented by the parties. In the event of material shortages, including shortages of materials or production facilities necessary for production of the Licensed Products, NOA reserves the right to allocate such resources among itself and its licensees.

14.3 Records and Audit. During the Term and for a period of two (2) years thereafter, LICENSEE agrees to keep accurate, complete and detailed records related to the development and sale of the Licensed Products and the Marketing Materials. Upon reasonable Notice to LICENSEE, NOA may, at its expense, audit LICENSEE's records, reports and other information related to LICENSEE's compliance with this Agreement.

14.4 Waiver, Severability, Integration, and Amendment. The failure of a party to enforce any provision of this Agreement shall not be construed to be a waiver of such provision or of the right of such party to thereafter enforce such provision. In the event that any term, clause or provision of this Agreement shall be construed to be or adjudged invalid, void or unenforceable, such term, clause or provision shall be construed as severed from this Agreement, and the remaining terms, clauses and provisions shall remain in effect. Together with the NDA, this Agreement constitutes the entire agreement between the parties relating to the subject matter hereof. All prior negotiations, representations, agreements and understandings are merged into, extinguished by and completely expressed by this Agreement and the NDA. Any amendment to this Agreement shall be in writing, signed by both parties.

14.5 Survival. In addition to those rights specified elsewhere in this Agreement, the rights and obligations set forth in Sections 3, 8, 9, 10 and 13 shall survive any expiration or termination of this Agreement to the degree necessary to permit their complete fulfillment or discharge.

14.6 Governing Law and Venue. This Agreement shall be governed by the laws of the State of Washington, without regard to its conflict of laws principles. Any legal action (including judicial and administrative proceedings) with respect to any matter arising under or growing out of this Agreement, shall be brought in a court of competent jurisdiction in King County, Washington. Each party hereby consents to the jurisdiction and venue of such courts for such purposes.

14.7 Equitable Relief. LICENSEE acknowledges that in the event of its breach of this Agreement, no adequate remedy at law may be available to NOA and that NOA shall be entitled to seek injunctive or other equitable relief in addition to any relief available at law.

14.8 Attorneys' Fees. In the event it is necessary for either party to this Agreement to undertake legal action to enforce or defend any action arising out of or relating to this Agreement, the prevailing party in such action shall be entitled to recover from the other party all reasonable attorneys' fees, costs and expenses relating to such legal action or any appeal therefrom.

14.9 Counterparts and Signature by Facsimile. This Agreement may be signed in counterparts, which shall together constitute a complete Agreement. A signature transmitted by facsimile shall be considered an original for purposes of this Agreement.

IN WITNESS WHEREOF, the parties have entered into this Agreement on the dates set forth below.

NOA:

LICENSEE:

NINTENDO OF AMERICA INC.

ACCLAIM ENTERTAINMENT, INC.

By: /s/ John Bauer

By: /s/ Gregory Fischbach

Title: Executive VP, Administration

Title: Chief Executive Officer

Date: July 11, 2001

Date: June 19, 2001
