INTERNATIONAL TRANSFER AND PROTECTION OF KNOW-HOW AND TECHNOLOGY - OVERVIEW

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NOVEMBER 12, 1982

I. BASIC CONSIDERATIONS IN LICENSING

A. CONTEXT FOR LICENSING

1. WHAT IS LICENSING?

a. LICENSING IS:

i. PURCHASE, SALE OR EXCHANGE OF CERTAIN RIGHTS RELATING TO PROPRIETARY ASSETS IN WHICH THE LICENSOR PERMITS THE LICENSEE TO MAKE, USE AND/OR SELL:

1. INVENTION (PATENT),

2. KNOWLEDGE HOW TO - (KNOW-HOW) AND/OR

3. NAME (TRADEMARK)

2. THE LICENSABLE PROPERTIES - WHAT IS BEING LICENSED? PROPRIETARY ASSETS - WHAT ARE THEY? WHAT CAN YOU DO WITH THEM?

a. PATENTS

1. BASIS - U.S. CONSTITUTION

ARTICLE 1 SECTION 8 - POWERS OF CONGRESS COLLECT TAXES, COMMERCE CLAUSE, COIN MONEY, DECLARE WAR, PROVIDE ARMY & NAVY, SET UP D.C., ETC.

#8 "TO PROMOTE THE PROGRESS OF SCIENCE AND USEFUL ARTS BY SECURING FOR LIMITED TIMES TO AUTHORS AND INVENTORS THE EXCLUSIVE RIGHTS TO THEIR RESPECTIVE WRITINGS AND DISCOVERIES"

2. INVENTION -- SOMETHING THAT WAS NOT THERE BEFORE
3. RIGHT TO EXCLUDE OTHERS
   NO RIGHT TO DO ANYTHING
   NOT MONOPOLY
   BELL TELEPHONE EXAMPLE
   EUROPEAN COPIER COMPANY EXAMPLE
4. U.S. AND FOREIGN -- NO EXTRATERRITORIAL RIGHTS
5. PATENT APPLICATION -- NO RIGHTS UNTIL ISSUED
6. PATENTS DISCLOSE INFORMATION AVAILABLE AT TIME OF FILING PATENT APPLICATION
   ISSUED PATENT USUALLY DOES NOT INCLUDE ACTUAL COMMERCIAL DETAILS WHICH ARE NEARLY ALWAYS DEVELOPED AFTER PATENT APPLICATION IS FILED AS PATENT APPLICATION SHOULD BE FILED IN U.S. PATENT AND TRADEMARK OFFICE AT AN EARLY STAGE OF DEVELOPMENT
7. WHAT PATENTS COVER
   EDISON PATENT -- CARBON FILAMENT
   FERMI & SZILARD ATOMIC REACTOR PATENT
8. LIFE OF PATENT
   U.S. -- 17 YEARS EXCEPT NOW HAVE MAINTENANCE TAXES
   FOREIGN -- MAINTENANCE TAXES
9. COSTS
10. WHY PATENTS?
    A. SECRECY V. DISCLOSURE
    B. SOME PROTECTION OF R&D EXPENDITURES
    C. HELP SMALL COMPANY VS. BIG COMPANY
       POLAROID
    D. USEFUL IN LICENSING AND JOINT VENTURE BUSINESS ARRANGEMENTS

B. TRADE SECRETS AND KNOW-HOW

1. WHAT YOU KNOW THAT SOMEONE ELSE DOESN'T
   "HOW TO ... "
2. KODAK COATING SECRETS
3. COCA COLA

C. TRADEMARKS

1. BRAND NAME OF PRODUCT
   LIKE PERSON'S FIRST NAME
   (LAST NAME -- GENERIC)
2. ORIGIN OR SOURCE OF PRODUCT
3. INDICATES QUALITY OF PRODUCT
4. VALUE
   COCA COLA -- TRADE SECRET
5. INDEFINITE LIFE
6. CONTINUOUS USE
7. PROPER USE -- ADJECTIVE, NOT NOUN
   COKE -- TAVERN SUITS
   ASPIRIN, KEROSENE, ESCALATOR, LINOLEUM
8. SANFORIZED -- PATENT AND TRADEMARK
9. PEPSI COLA -- USSR
10. FRANCHISING

D. TRADE NAME -- NAME OF COMPANY

E. COPYRIGHTS
   BOOKS -- MUSIC

B. WHAT LICENSE TECHNOLOGY?

1. LICENSOR'S VIEWPOINT

A. LICENSE SOLUTION SHOULD MAXIMIZE PROFITS

B. ADVANTAGES

1. PROVIDES ENTRY INTO OTHER MARKETS WITHOUT LARGE CAPITAL OUTLAY
2. A. SUBSTANTIAL INITIAL PAYMENT
   B. CONTINUING ROYALTY INCOME
3. USE OF PROPRIETARY ASSETS TO OBTAIN EQUITY IN LICENSEE
4. MAKES TECHNOLOGY AVAILABLE TO OTHERS AND REAP A RETURN WHERE COMPETITORS MIGHT DEVELOP THEIR OWN TECHNOLOGY AND AVOID OR BREAK YOUR PATENTS IF LICENSE WAS NOT AVAILABLE
5. PENETRATES DOMESTIC OR FOREIGN MARKETS WHICH ARE NOT READILY AVAILABLE FOR REASONS SUCH AS:
   A. TRANSPORTATION COSTS
   B. DUTIES
   C. GOVERNMENT REGULATIONS
   D. CUSTOMER PREFERENCES FOR LOCAL OR LONG-TERM SUPPLIER
6. PROVIDES RAPID ENTRY INTO MARKETS
7. MAY BE ONLY AVAILABLE AVENUE IF DIRECT EXPORTS ARE NOT FEASIBLE AND SUBSIDIARY OR JOINT VENTURE OPERATION IS NOT FEASIBLE
8. AVOIDS NECESSITY FOR ESTABLISHING PERMANENT STAFF OF ADMINISTRATIVE AND/OR TECHNICAL PERSONNEL IN A LOCATION WHICH IS NOT FEASIBLE
9. AVOIDS NECESSITY FOR ESTABLISHING YOUR OWN MARKETING CAPABILITY IN LOCATION INVOLVED
10. PROVIDE ACCESS TO TECHNOLOGY OF LICENSE ON A CROSS-LICENSE OR LICENSE GRANTBACK BASIS
11. TO TEST A PRODUCT OR PROCESS IN ANOTHER LOCATION WHERE IT CANNOT BE DONE IN YOUR LOCATION (FOR EXAMPLE, PLASTIC PIPE IN CANADA)

12. To help sell raw materials or associated products, services or equipment
13. License may be technique of evaluating licensee for additional licenses, or possible partial or total acquisition
14. Provide benefits from technology that will not be used by licensor or which will no longer be used by licensor
15. Provides a way to satisfy market without creation or expansion of licensor facilities
16. Trademark license - trademark developed by licensee
17. Gain advantages of local manufacture without committing capital abroad
18. Augment limited domestic capacity and management resources
19. Provide services and supplies for local customers
20. Method of accommodating military needs of foreign governments

C. Disadvantages

1. Usually can make more money by making and selling yourself
2. In doing it himself licensor can utilize or expand his own facilities, personnel, etc.
3. Royalties for a limited period may be inadequate return for licensor
4. License may not build up market for additional or future products
5. Insufficient opportunity for growth and investment
6. Licensor will not be able to control licensee operation and because of this, licensee may not make adequate use of licensor's experience and thus may not be successful
7. Licensing may create a competitor
8. Providing adequate assistance to licensee may be too burdensome, especially if licensee is inexperienced, distant, etc.
9. Trademark license - difficult to control quality
10. Licensee may do bad job and damage licensors reputation, especially if trademark involved

LICENSEE'S VIEWPOINT

A. ADVANTAGES

1. MAY PERMIT RAPID ENTRY INTO MARKET USING COMPLETELY DEVELOPED TESTED TECHNOLOGY OF OTHERS
2. MAY BE CHEAPER THAN DEVELOPING OWN TECHNOLOGY
3. MAY ELIMINATE NEED FOR EXTENSIVE RESEARCH
4. MAY PROVIDE RELATIONSHIP PROVIDING ACCESS TO ADDITIONAL TECHNOLOGY
5. MAY ACQUIRE TECHNICAL SERVICES AND BACKUP TECHNOLOGY AS WELL AS PROBLEM SOLVING
6. MANAGEMENT ASSISTANCE
7. MARKETING ASSISTANCE
8. LICENSE MAY BE START OF CLOSER RELATIONSHIP, SUCH AS PARTIAL OR TOTAL ACQUISITION
9. LICENSE GIVES LICENSEE OPPORTUNITY TO EVALUATE TECHNOLOGY WHICH IT MAY WANT TO PURCHASE ITSELF AND LICENSE OTHERS
10. POTENTIAL PRESTIGE FACTOR

B. DISADVANTAGES

1. DOWN-PAYMENT MAY NOT BE RECOVERABLE BECAUSE TECHNOLOGY IS NOT ADEQUATE OR IS NOT SUITABLE FOR LICENSEE'S MARKET
2. BY ACCEPTING LICENSE FROM ONE LICENSOR MAY REMOVE ACCESS TO OTHER LICENSORS - LICENSEE MAY CHOOSE WRONG TECHNOLOGY OR WRONG LICENSOR
3. LICENSOR MAY NOT BE ABLE OR WILLING TO RENDER ADEQUATE ASSISTANCE
4. LICENSEE MAY BE HARMED BY UNLICENSED COMPETITION IF LICENSOR' PATENT PROTECTION IS WEAK
5. LICENSE MAY BE TOO EXPENSIVE AND THUS PROFIT ON LICENSEE'S OPERATION UNDER LICENSE MAY BE INADEQUATE
6. LICENSED TECHNOLOGY MAY NOT BE SUITABLE FOR LICENSEE'S MARKET (OBSOLETE, TOO HIGH OR TOO LOW QUALITY, TOO EXPENSIVE, ETC.)

II. THE LICENSE AGREEMENT

A. GENERAL

1. NO FORM AGREEMENTS

a. WIDE ARRANGEMENT OF POSSIBLE BUSINESS DEALS

2. USE LICENSING EXPERT

a. (MUST BE ABLE TO APPRECIATE LONG-TERM PRACTICALITIES OF ARRANGEMENT)

3. MUST BE GOOD DEAL FOR BOTH SIDES

4. NEGOTIATION NOT CONTEST TO DETERMINE WHO IS SLICKEST LAWYER

5. LICENSING LIKE MARRIAGE

a. CAN'T TELL IF GOOD ARRANGEMENT UNTIL TOO LATE

b. NEED CONTINUING RELATIONSHIP

B. CONSIDERATION – WHAT TO CHARGE? – WHAT TO PAY?

1. BOTH PARTIES HAVE TO MAKE MONEY

2. IS THERE INDUSTRY PRECEDENT

3. LICENSEE TAKES MORE RISK. THEREFORE HE SHOULD GET LION'S SHARE OF PROFIT

4. FOR GOOD TECHNOLOGY AND GOOD PROPRIETARY POSITION SHOULD GET 15-35% OF PROFIT ESTIMATE, PAYABLE AS A PERCENTAGE OF SALES -- DON'T HAVE % OF COST OR PROFITS

5. ROYALTY ON SALES, LUMP SUM, SPECIFIED FEE PER UNIT

a. LUMP SUM, SINGLE PAYMENT

b. LUMP SUM, MULTIPLE PAYMENT

c. DOWN PAYMENT PLUS RUNNING ROYALTIES

d. RUNNING ROYALTIES

i. % OF SALES

A. CONSTANT

B. VARIABLE

2. FIXED AMOUNT PER ITEM
   - A. CONSTANT
   - B. VARIABLE
   - C. INFLATION CLAUSE

E. DOWN (INITIAL PAYMENT)
   1. PART OR ALL MAY BE CREDITED AGAINST FUTURE ROYALTIES
      - A. FOR SOME SPECIFIED PERIOD

F. STOCK OF LICENSEE
   1. PART OR ALL OF ROYALTIES

C. TYPE OF LICENSE
   1. NON-EXCLUSIVE
   2. EXCLUSIVE
      - A. MINIMUM ROYALTIES
   3. SEMI-EXCLUSIVE (SOLE)

D. FIELD
   1. OFTEN IS MOST IMPORTANT CLAUSE IN THE AGREEMENT

E. TERM
   1. PATENT LIFE
      - A. WATCH "LAST PATENT TO EXPIRE"
      - B. UNDER NEW US LAW
         1. MAINTENANCE FEES
   2. FIXED PERIOD

F. TERRITORY
   1. TO DO WHAT?
      - A. MAKE
      - B. SELL

G. SUB-LICENSING

H. INDEMNIFICATION OF LICENSEE
   1. PATENT INFRINGEMENT
   2. LIABILITY TO CUSTOMER OF LICENSEE
      A. PATENTS
         1. NONE
         2. PARTIAL
            A. SHARE OF ROYALTY PAYMENTS
            B. SHARE OF OUT-OF-POCKET LEGAL EXPENSES
      B. TRADEMARKS

I. BANKRUPTCY
   1. US
   2. FOREIGN

III. PATENTS AND TRADE SECRETS - AN ANTITRUST ANALYSIS

A. COMPARISON OF PATENTS AND TRADE SECRETS
   1. REVIEW OF PROPERTIES OF PATENTS
      A. PUBLISHED INFORMATION
      B. LEGAL RIGHT TO PREVENT OTHERS, NOT RIGHT TO DO ANYTHING
      C. ONLY GOOD IN COUNTRY OR REGION OF ISSUE
      D. EXPIRES ON SPECIFIC DATE
   2. TRADE SECRETS AND KNOW-HOW
      A. UNPUBLISHED INFORMATION
      B. MUST BE KEPT CONFIDENTIAL
      C. NO LEGAL RIGHT WITH RESPECT TO OTHERS
      D. NO INHERENT TERRITORIAL LIMITATIONS
      E. HOW TO DO SOMETHING
      F. DOES NOT EXPIRE ON SPECIFIC DATE

B. RELATIONSHIP BETWEEN PATENTS AND TRADE SECRETS AND KNOW-HOW IN LICENSING

1. OFTEN RELATE TO SAME TECHNOLOGY
2. MOST LICENSING AGREEMENTS INCLUDE BOTH
3. SOME LICENSING AGREEMENTS INCLUDE ONLY TRADE SECRETS AND KNOW-HOW
4. FEWER LICENSING AGREEMENTS INCLUDE PATENTS ONLY
5. RELATIVE IMPORTANCE IN AN AGREEMENT CAN VARY WIDELY

C. ANTITRUST LICENSING ASPECTS

1. PATENT ROYALTIES CANNOT BE PAID FOR PERIOD AFTER LICENSE EXPIRES IN US
2. TRADE SECRET OR KNOW-HOW ROYALTIES ARE PAYABLE FOR AS LONG AS AGREEMENT SPECIFIES
3. CAN USE PATENTS TO CONTROL LICENSED TERRITORIES
   A. EXCEPT FOR SELLING PRODUCT
      1. EEC
      2. PATENT EXHAUSTION
4. MORE RISKY AND DIFFICULT TO USE TRADE SECRETS AND KNOW-HOW TO CONTROL LICENSED TERRITORIES
5. MANY DEVELOPING COUNTRIES WILL NOT PERMIT EITHER PATENTS OR TRADE SECRETS TO DETERMINE EITHER ROYALTY PERIOD OR TERRITORY.

D. SOME LICENSE PROVISIONS

1. PATENT
   A. DIVISION OF MARKETS
   B. MANUFACTURE AND SELL IN COUNTRY "A" ONLY
   C. MANUFACTURE IN "A" ONLY AND SELL IN "A", "B" AND "C"
   D. USING PATENTS TO STOP IMPORTS

2. TRADE SECRET AND KNOW-HOW
   a. DIVISION OF MARKETS
   b. MANUFACTURE AND SELL IN COUNTRY "A" ONLY
   c. MANUFACTURE IN "A" ONLY AND SELL IN "A", "B" AND "C"
   d. TRADE SECRETS AND KNOW-HOW USUALLY INEFFECTIVE TO STOP IMPORTS

IV. UNIQUE FACTORS IN TRADE SECRET AND KNOW-HOW LICENSING
   A. ROYALTY PERIODS
      1. MAY BE VERY LONG OR QUITE SHORT
   B. TERRITORIAL RESTRICTIONS
      1. DIFFICULT TO ENFORCE
   C. DISCLOSURE RESTRICTIONS
      1. NECESSARY TO PROTECT PROPRIETARY NATURE
      2. AFTER AGREEMENT OR ROYALTY PERIOD EXPIRES
   D. USE RESTRICTIONS
      1. AFTER AGREEMENT OR ROYALTY PERIOD EXPIRES
   E. PRODUCT LIABILITY VS. PRODUCT LIABILITY IN PATENT LICENSES
   F. TRANSFER OF TRADE SECRETS AND KNOW-HOW
   G. DEVELOPING COUNTRIES
   H. UNITED NATIONS CODES

V. UNIQUE FACTORS IN TRADEMARK LICENSING
   A. ROYALTY PERIODS
      1. MAY BE AS LONG AS USE OF TRADEMARK
   B. TERRITORIAL RESTRICTIONS
   C. QUALITY CONTROL
      1. MANDATORY TO INCLUDE
      2. MANDATORY TO PRACTICE
   D. USE AFTER AGREEMENT EXPIRES

E. PRODUCT LIABILITY

F. DEVELOPING COUNTRIES

G. UNITED NATIONS CODES

VI. EVALUATION OF ALTERNATIVE LICENSING OPPORTUNITIES

A. BY LICENSOR

1. BUSINESS PLAN

2. LICENSEE FACTORS

a. MANUFACTURING

b. MARKETING

c. FINANCIAL STRENGTH

d. PAST PERFORMANCE

e. MANAGEMENT STABILITY

f. MANAGEMENT WILL

g. LONG TERM RELATIONSHIP

h. COMPETITIVE POSITION

i. LONG TERM PLANS

j. BUSINESS PLAN

k. ASSETS AVAILABLE

l. FINANCIAL TERMS

m. TECHNICAL STRENGTH

n. TIMING FACTORS

B. BY LICENSEE

1. BUSINESS PLAN

2. LICENSOR FACTORS
   - A. QUALITY OF TECHNOLOGY
   - B. STAGE OF DEVELOPMENT OF TECHNOLOGY
   - C. TIMING FACTORS
   - D. SUCCESS OF TECHNOLOGY IN MARKET
   - E. FINANCIAL TERMS
   - F. STRENGTH OF TRADEMARKS INVOLVED
   - G. STRENGTH OF PATENTS INVOLVED
   - H. ABILITY OF LICENSOR TO TRANSFER TECHNOLOGY