INDUSTRIAL PROPERTY AS A CORPORATE ASSET: CORPORATE PROPERTY AND THE BUSINESS ASPECTS OF INTERNATIONAL LICENSING

BY

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GIVEN AT THE SEVENTH ANNUAL SYMPOSIUM ON INTERNATIONAL LICENSING, TECHNOLOGY TRANSFER AND DISTRIBUTION AT THE WORLD TRADE CENTER, NEW YORK, NOVEMBER 16, 1981

I. PROPRIETARY ASSETS - WHAT ARE THEY?
WHAT CAN YOU DO WITH THEM?

A. PATENTS
B. TRADE SECRETS AND KNOW-HOW
C. TRADEMARKS
D. TRADE NAMES
E. COPYRIGHTS

A. PATENTS

1. BASIS - U.S. CONSTITUTION
ARTICLE I 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
   FOREIGN -- MAINTENANCE TAXES
9. COSTS
10. WHY PATENTS?
    A. SECRECY VS. 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 <u>NOUN</u>
   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

II. A. LICENSING AS ELEMENT IN BUSINESS STRATEGY FOR MAXIMUM UTILIZATION OF RESOURCES

1. CONSIDER GRANTING LICENSES
   - A. EXPAND GEOGRAPHIC AREAS SERVED
   - B. EXPAND MARKETS OR APPLICATION AREAS
   - C. BROADEN USAGE OF TECHNOLOGY BEYOND OWN MARKET SHARE
   - D. STRENGTHEN MARKETING PROGRAM RE: SECOND SOURCE
2. CONSIDER SEEKING LICENSES
   - A. FASTER GROWTH THAN INTERNAL R&D ALONE
   - B. MAXIMIZE RETURN ON MARKETING/MANUFACTURING INVESTMENT
   - C. ADD ACCESSORY PRODUCTS
   - D. VERTICAL INTEGRATION

B. WHAT IS BEING LICENSED?

LICENSEE -- LICENSOR

PROPRIETARY ASSETS

1. YOU WILL LET LICENSEE USE ONE OR MORE OF YOUR
   - A. INVENTIONS
   - B. KNOWLEDGE HOW TO ...
   - C. PRODUCT NAME
2. MAY INCLUDE TEACHING LICENSEE HOW TO USE INVENTIONS AND/OR YOUR KNOWLEDGE
3. MAY BE ONE-SHOT OR CONTINUING

III. THE LICENSING BUSINESS DEAL

A. GENERAL

NO FORM AGREEMENTS

WIDE ARRANGEMENT OF POSSIBLE BUSINESS DEALS

USE LICENSING EXPERT

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

MUST BE GOOD DEAL FOR BOTH SIDES

NEGOTIATION NOT CONTEST TO DETERMINE WHO IS SLICKEST LAWYER

LICENSING LIKE MARRIAGE

1. CAN'T TELL IF GOOD ARRANGEMENT UNTIL TOO LATE
2. NEED CONTINUING RELATIONSHIP

B. TYPES OF TECHNOLOGY TRANSFER AGREEMENTS

1. COMPLETE SALE OF TECHNOLOGY
2. RETAIN SOME RIGHTS
   - A. EXCLUSIVE
   - B. SOLE OR SEMI-EXCLUSIVE
   - C. NON-EXCLUSIVE
3. MAKE, USE AND/OR SELL
4. TERRITORY
5. FIELD

   DEFINITION OF FIELD IS EXTREMELY IMPORTANT
6. WHAT TO CHARGE?
   - A. BOTH PARTIES HAVE TO MAKE MONEY
   - B. IS THERE INDUSTRY PRECEDENT
   - C. LICENSEE TAKES MORE RISK. THEREFORE HE SHOULD GET LION'S SHARE OF PROFIT
   - D. ROYALTY ON SALES, LUMP SUM, SPECIFIED FEE PER UNIT
     1. LUMP SUM, SINGLE PAYMENT
     2. LUMP SUM, MULTIPLE PAYMENT
     3. DOWN PAYMENT PLUS RUNNING ROYALTIES

4. RUNNING ROYALTIES
   A. % OF SALES
      I. CONSTANT
      II. VARIABLE
   B. FIXED AMOUNT PER ITEM
      I. CONSTANT
      II. VARIABLE
      III. INFLATION CLAUSE
5. DOWN (INITIAL PAYMENT)
   A. PART OR ALL MAY BE CREDITED AGAINST FUTURE ROYALTIES
      I. FOR SOME SPECIFIED PERIOD
6. STOCK OF LICENSEE
   A. PART OR ALL OF ROYALTIES
7. MINIMUM ROYALTIES

E. 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

7. TERM OF AGREEMENT
   A. PATENT LIFE
      I. WATCH "LAST PATENT TO EXPIRE"
   B. KNOW-HOW LIFE
8. TERMINATION OF AGREEMENT
9. MOST FAVORED LICENSEE (NATION)
10. SUB-LICENSE
11. PATENT INFRINGEMENT
   A. LICENSEE'S ACTS INFRINGE PATENTS OWNED BY OTHERS
   B. OF LICENSED PATENTS BY ACTS OF OTHERS

12. TRADEMARKS

A. IF TRADEMARKS ARE LICENSED, THERE MUST BE PROVISION FOR, AND ACTUAL CONTROL OF, QUALITY TO AVOID LOSING THE TRADEMARK

1. HOWEVER, RECENTLY THE LAW IN THE UNITED STATES HAS DEVELOPED AND WILL PROBABLY DEVELOP IN A SIMILAR FASHION IN THE EEC AND IN OTHER PARTS OF THE WORLD SO THAT THE TRADEMARK LICENSOR WILL BE LIABLE FOR INJURIES OR PROPERTY DAMAGES CAUSED BY DEFECTIVE PRODUCTS MADE BY THE TRADEMARK LICENSEE

a. LICENSOR CONTROLS THE QUALITY OF THE PRODUCT BEING MANUFACTURED UNDER THE TRADEMARK LICENSE

b. LICENSOR BENEFITED FINANCIALLY OR OTHERWISE FROM THE TRADEMARK LICENSE

c. OFTEN THE CONSUMER RELIED ON THE QUALITY INDICATED BY THE TRADEMARK IN BUYING THE PRODUCT

2. THUS, IF THERE IS NO CONTROL ON THE LICENSED GOODS, THE TRADEMARK LICENSOR MAY LOSE THE TRADEMARK

3. IF THERE IS ADEQUATE CONTROL ON THE LICENSED GOODS, THE TRADEMARK LICENSOR WILL BE STRICTLY LIABLE FOR DEFECTIVE PRODUCTS TURNED OUT BY HIS LICENSEE

4. THE BEST SOLUTION IS TO REQUIRE THE LICENSEE TO OBTAIN INSURANCE AND NAME THE LICENSOR AS BEING CO-INSURED

B. TRADEMARKS LAST INDEFINITELY, IF PROPERLY HANDLED, AND THUS CAN PROVIDE A BASIS FOR A LONG-TERM RELATIONSHIP WITH THE OTHER PARTY AS WELL AS FOR A

CONTINUATION OF ALL OR PART OF THE ROYALTY AFTER EXPIRATION OF PATENTS OR AFTER THE KNOW-HOW LOSES ITS VALUE