

or technology, particularly as it is regarded by the military services in the United States and the country where the license is going.

- b. The market potential for the licensed item — This is likely to influence front-end payments and minimums more than percentages.
 - c. The stage of development of the licensed subject matter — If the license is for a product or system which essentially duplicates and therefore takes full advantage of data and services we have on a product or system we are producing in the United States, we would expect the royalty terms to be higher than where we are called upon to do some engineering to adapt a basic system or product of Hughes to the specific requirements of the foreign customer.
 - d. Our patent position — Good patent coverage would normally command a higher royalty.
 - e. Tradition or custom — The traditional basis for royalty on military equipment includes a percentage of sales.
- C. Hughes normally prefers nonexclusive licenses but, under appropriate conditions, we will grant an exclusive manufacturing license in the home country of the licensee. Sales rights are always nonexclusive.

With regard to territorial considerations, we are carefully controlled by the U.S. Department of State as to the countries where the technology or the licensed device can be exported or reexported. Accordingly, we normally limit manufacturing and sales rights to the home country of the licensee where his initial market is located. Later on, if additional markets develop, we would usually extend the sales territory if our State Department agrees.

- D. A final consideration that is peculiar to the licensing of military products is the inclusion of a set of government provisions in all licenses. In fact, without them, U.S. Government approval will not be obtained.

The foregoing then is a brief overview of foreign licensing at Hughes Aircraft Company. I suspect

that other U.S. defense contractors have a similar approach to foreign licensing although they may be organized to do it in a different way from Hughes. I do know that there is great activity throughout the world in the multi-national licensing of military products. Although in the past, U.S. companies have played the major role of licensor, other countries are doing more in-country R & D and so the competition among licensors is increasing. Thus, rather than taking steps to restrict the role of the U.S. licensor, as the Burke-Hartke bill would do, I think we need to make it easier for U.S. companies to grant foreign licenses if we expect to sustain a return from abroad on our investment in technology in this country.

Thank you very much for your attention.

**About the Speaker: Leo F. Costello is Director, Foreign Licensing, Hughes Aircraft Company.*



Thomas P. Collier

FOREIGN LICENSING OF HIGH TECHNOLOGY

by

*Thomas P. Collier**

My task today is to talk to you a little bit about licensing in high technology fields. Actually, I was going to tell you some stories about some of the larger companies that I've been associated with in the corporate sense, or some of the companies that I've worked with in the consulting sense, but most of those are very large companies. It doesn't seem that much has been said about anybody under a billion dollars a year, so I thought I would talk to you about

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some of the smaller companies that we have worked with in the licensing of high technology. These would be companies whose volume would be, say, from five million to twenty-five million dollars. Most of these companies are new companies in the computer-related fields.

Many of these companies were formed by splinter groups of some larger companies, fellows with very high technology and with an idea that they could do more outside on their own than they could with the parent company that they had previously been with. But it all fits a general pattern. There is a great tendency on the part of engineers and technical people to have an abundance of self-confidence in themselves. And they tend to be the "do-it-yourselfers". You know: "What's so different about going overseas? They laugh and they carry on the same way as we do, and they respond to the same stimuli. So what's the big deal about getting an attorney or a consultant or somebody else to help us. We'll go down and see our bank and see the Department of Commerce, and maybe a chamber of commerce overseas, and maybe an airline. And they'll tell us all we have to know."

Well, one of these companies with a turnover of about twelve million dollars a year, formed five years ago, is in the computer peripheral related field. And they have developed an excellent, beautiful product. So their approach was to go overseas, and approach the smaller competitors that they could find in the sophisticated countries.

They first went to Europe, and then they went to the United Kingdom, because that was easy. Most people spoke English or a reasonable facsimile thereof. Then they went to France, and to Germany, and to the Benelux countries, and finally to Sweden.

They endeavored to cook up a licensing deal, but, unfortunately, they didn't have any luck. The smaller companies over there — smaller relatively speaking, somewhat larger than themselves — didn't see the necessity of buying their particular technology. So that didn't work too well.

So then they said, "Well, okay, let's try the very large companies." And so they went to the huge companies, and these companies said, "Oh, you fellows don't really have anything that's very new or very unique. If we don't have it now, we could develop it ourselves." That didn't work either.

So then they asked us if we would come down and talk to them about an approach that we might take on their behalf. So we said, "Yes, we think we could do this for you. It won't be too difficult. We'll take two areas. We'll take a selected company or companies in Europe and a selected company or companies in Japan."

We went to two different companies, and I think there's a lesson here. We said, "There's no point in going to these larger overseas companies, because they will probably give you all the reasons why that technology is not suited to them because they're already in this field." So we selected companies who were not either producing or marketing that kind of technology, completely unrelated companies, but companies who had the basic requirements within their organizations to produce this kind of material

under license.

This approach was successful. We signed up two very major companies, one in the United Kingdom and one in Europe. The deal produced a lot of front money, a very fine royalty arrangement, and the flowback of technology, which was one of the things that the client had not even considered, largely, I think, because of this super-abundance of self-confidence that they really didn't need any technology coming back to them. Then we went to Japan with the same thing.

But now, here is an interesting story. The first time that we went to Europe, and making the rounds of all these companies, we were rebuffed almost without exception at the major companies who were producing similar equipment. In Japan, in about three days' time, the word had got around that we were there, and we virtually could not keep the people away from our hotel room. They came seeking us, looking for this kind of technology.

And this was all within the space of about sixty days. Europe on the one hand with the "NIH" factor, or "We can do it better, or bigger, or quicker, or just as well", and Japan on the other hand, where the Japanese were very open in wanting to hear our story on this new technology.

Now, let me go to another field which is somewhat similar. In this case, we had a completely different set of circumstances. This was a smaller company with a very weak patent position.

With a very tenuous patent position, we recommended to the client that he ought to go for a joint venture. With this purpose, we went to Europe, approached a large company, and stated that our client would like to form a joint venture with them in a particular kind of technology.

After an enthusiastic reception at the lower levels of the company, we arranged a meeting with top management and advised them what the technology was, what it would do for the company, and so on. After about a half-hour sales pitch, to which they listened very attentively, the director said, "You know, Tom, we have a simple company here. It was formed by my grandfather. My brother and I run this company, and we like to keep it simple. We don't like partners. Now, if you want to talk about a license, maybe we'll consider it. But please, don't waste our time or our peoples' time talking about a joint venture."

Well, the lesson to be observed there is that you had better find out what the management of these companies really wants, because down at the lower level it was just all great.

We decided that this was not the way to go, and advised the client to approach another company. This time, we could hardly get away. They said, "Yes, let's form a joint venture. That's the greatest thing we can do. We'll structure it this way: You fellows will have 49 percent, and we'll have 50 percent. And you put in your know-how, and we'll put in the people, the bricks and the mortar. We'll get the capital, and we'll handle this for you. You fellows won't have any problem. Maybe put in a few dollars, but you don't have to put in much. We're ready to

go, and would like to sign the deal now."

So, two days later, I said, "You know, there's something wrong. This company's much too eager. Let's go and see another company."

So we approached another substantial company, where we talked with the vice-chairman of the board. His response to us was: "We really don't think you Americans have anything to offer us. We're quite capable in these fields and related fields ourselves. We're really not interested in licensing and we're not interested in joint ventures. Good day, and thank you 'veddy' much."

So then we went over to Holland. And we went over to see another large prospect company. The response here was, "Oh, yes. Yes, yes, this is fine. We'd be very interested — not in the joint venture, but in a cross-licensing arrangement. We think we have things to give you, and believe you've got something to give us, so let's make a cross-licensing arrangement. We have some sample documents here, and we'd like you to go back to your hotel and consider it. If you'd like to get together, I'm sure we can get some attorneys. And if you'd like to sign it up, we could probably do it before the end of this week."

At this stage, it was time to decide which way to go. The company decided that the first prospect would be too difficult to do business with. They were the reluctant giant. If we did make a license arrangement with them, they would beat us down too much in royalty. Because of that, and their sort of diffident manner, we concluded that this company probably wasn't a very good one to go with.

Something was wrong with the second company. They were much, much too eager. We came to the conclusion that perhaps after a short period of time in a joint venture with this company, something would be likely to happen. Know-how might be transferred, or perhaps we wouldn't be able to get along. And besides, it was sort of like marrying a gnat with an elephant. The sizes were just not compatible.

Obviously, there was no point in going back to the third company, even though our client felt that they might just be playing cozy, really wanting us to come in with another offer. That didn't work.

With respect to cross-licensing, we recommended against dealing on this basis. A company I had been associated with had entered into a cross-licensing arrangement with this same company, with unsatisfactory results.

Many European companies, and this company in particular, seem to be able to generate a great number of engineers, scientists and technicians in teams who come over to your plant and almost avalanche you. They're in every nook and cranny of your plant, getting everything, and they know how to get to your engineers. They know how to entertain your people, and they always seem to be able to get all of your know-how, while we seem to find it very difficult to obtain permission to send one engineer over every three months or every six months.

So I advised the clients that they were too small. They didn't have that kind of talent that they could spare to send over there, nor did they have sufficient personnel to handle the teams from the other side.

So, the final conclusion was that we would help our clients go to France, obtain assistance and encouragement from the French government, and set up their own plant in southern France. They're there today, and they're doing fabulously *all* on their own.

**About the Speaker: Thomas P. Collier is with the firm, Thomas P. Collier and Associates.*



George W. Talburt

**GENERAL SUBJECT: LICENSING;
THE AUTOMOBILE INDUSTRY**

by

*George W. Talburt***

Good Morning Gentlemen:

I am pleased to have this opportunity to speak to you as a member of the Automobile Industry although my remarks as to licensing practices must be taken as essentially Chrysler practices based on my twenty-five (25) years experience in the Chrysler Corporation Patent Office. I do not mean to convey in any way that the licensing practices I will discuss are those currently utilized by, approved of or rejected by, any or all of the other members of our Industry.

I. Background Information

(a) First I might point out that our Industry is a relatively large, major industry which, in the U.S. in 1971, produced over ten million (10,000,000) passenger cars, trucks and busses valued roughly at twenty-seven billion dollars (\$27,000,000,000). The four major members of our Industry, General Motors, Ford, Chrysler and American Motors split their commercial