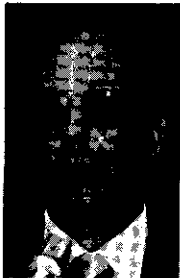


# How Industry and Institute Cooperate

*Case history of how Burlington Industries and Stanford Research Institute worked out agreement*

**BY HARRIS L. JOHNSON\***

Burlington Industries is indeed a large complex company operating in the textile industry and related businesses of furniture and home furnishings. Therefore, while licensing is an important activity at Burlington, it might be characterized as a necessity rather than an option sought by management.



H. Johnson

One corporate goal might be characterized as a licensing balance of payments condition. As a company with \$2 billion in sales, our payments for incoming technology are large so our desire to balance this with income from outgoing technology is necessarily considerable.

For the near term I am pleased to report that we have accomplished this. I do not know how long a favorable balance of payments will last; however, it's certainly pleasant to be in this condition at the moment. Certainly, we are willing to pay for technology that will benefit us and are always on the lookout to acquire it. The important thing is to have the most advanced technology available to our operating divisions whatever the cost to our licensing balance of payments.

We are a conservative, I might even say very conservative, company and that approach is certainly adhered to in licensing. To illustrate, we are currently licensors in only 18 active agreements and are active licensees in 12 instances. We are currently the defendant in some suits dealing with patent licensing and the plaintiff in other suits.

The incoming technology comes from the usual sources and each submission is carefully considered.

Where do we obtain the outgoing technology to maintain the positive balance of payments? We get it from our central corporate R&D; from our divisional R&D; from individuals and companies by what may be characterized as "over the transom" submissions and from universities and institutions such as Battel, AD Little and Stanford Research Institute.

You have heard that a licensing agreement is a little like a marriage. Two suitors meet, get to know what each offers the union, get engaged, get married, enjoy a honeymoon, and then settle down to make the union work by producing a successful offspring. It is true that such unions have their problems and often end in divorce or separa-

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tion, but fortunately for all of us the union more often survives.

My subject deals with the acquisition of technology from the institute, and while my observations will have general application, specifically cited later will be an innovation placement exercise recently concluded between

*From the LES U.S.A. Annual Meeting*

Stanford Research Institute and Burlington Industries. To establish the incentive and assure the marriage and innovation delivery, there was, in this instance, the advantage of sophisticated personnel within both organizations, but I submit to you that without very careful handling, whether with a midwife trainee or a highly-qualified obstetrician in attendance, an innovation will stand little chance of surviving the delicate delivery from the womb of the institution to the harsh realities of the commercial world.

Most institutions are able to conceive an innovation, manage a full-term pregnancy, and offer love but are seldom equipped to continue afterward to feed, protect, develop, and establish the innovation as a desirable commercial citizen. A properly motivated and dedicated licensee can accomplish that goal. I believe the initial incentives designed to assure the delivery to be one of the most delicate ingredients necessary to establish commercial use of an innovation.

Without going into details, let's stipulate that the usual initial broad general innovation interest criteria have been answered satisfactorily, otherwise the exercise would not take place.

In addition, the institution's top management and its chief licensing executive must appreciate the real-world commercial pressures on his potential licensee. They must avoid the common outlook of the individual inventor who often believes his creation is the ultimate advance and that he is entitled to vast sums through large initial payments and substantial royalty payments in the future. No one truly objects to those conditions when the future can be seen clearly enough to warrant such contractual arrangements. Unfortunately, experience teaches that few of us at the commercial level have that vision which so often is held by the inventor.

The institution representative must then have enthusiasm tempered with practicality. He must have the patience to allow his potential licensee to ruminate, investigate, evaluate & speculate.

## Corporate Criteria

The innovation must be pitted against the subtle internal corporate criteria of which the institution usually has

no intimate knowledge. After all, when the institutional representative has done his homework, he has supplied his potential licensee with positive answers to the initial interest criteria and then the potential licensee must look more closely to integrate its findings with its own goals and capabilities. Patience on the part of licensor or institute and the potential licensee in this situation is essential.

The institutional representative must also recognize that not all the contacts he makes with the potential licensee will result in supporters. Some detractors will appear, and he must supply his recognized corporate supporters with the information to overcome concerns which appear whether they are real or imagined. This series of interchanges often results in the formation of a joint program designed to move the innovation forward. This joint program is usually the preliminary step to the full contractual arrangement and the place where incentives play an important role. While it is not news to most of us, let's cite some of the stages of a typical document before returning to some of the specifics of the Burlington/Stanford exercise. First, after agreeing to try to agree, we must speak to the further research and development work which must be done, where and by whom, and at what cost. Second, the option or several levels of options representing decision points on the part of the licensee must be established during the life of the research and development project. Third, incentive credit must usually be given to the potential licensee for pre-paid royalty for a portion of the expenditures coupled with a commitment, formal or not since it is in its own best interests, by the institution to spend the money wisely. Finally the document speaks to the acquisition terms as specifically as possible.

The licensing program referred to earlier is the Stanford Research Institute development of new dyes and dyeing techniques for textile products. Once the institute had made this decision and introduced it to us, we began to wrestle with internal conflicts and decisions. Incidentally, some of those conflicts still occasionally arise when the high cost of the effort is being discussed.

Burlington was not, is not, and does not plan to be in the dyestuff business. Our expertise lies in the application of dyes, not their development and manufacture. Concluding an arrangement meant Burlington would risk high development cost for what obviously had to be sublicensed if it would be successful at all.

### Convince Departments

After Stanford Research personnel and enlightened Burlington personnel had convinced appropriate Burlington staff departments, we had to convince manufacturing divisions of the economic and technical merits of the innovation. All the while, licensing was projecting possible business arrangements with Stanford Research Institute and potential sublicensees, establishing critical path schedules, and developing arguments for use in the inter-

nal competitive struggle for R&D funds to undertake the project.

Once internal approval to proceed had been acquired, we entered into negotiations with Stanford Research Institute. The scope or field of the agreement was easily established through the well-developed patent applications and presented no major problems.

Since further research and development was obviously needed, Burlington undertook a dual effort, one internal and one with Stanford. The mere fact that Stanford was ready, willing, and able to undertake more development activity must be considered an incentive. True, the work had to be funded by Burlington, but by crediting Burlington with a portion of these costs as prepaid royalty, Stanford recognized the prepaid royalty requirement as a needed incentive. Finally, the initial and secondary optional payments also took the form of advance royalty payments.

As to the patents, patent applications, know-how, and results of research, we established a clear-cut situation which says that Licensee acquires all rights and will undertake to prosecute patentable material, keeping Licensor advised as to progress, but retaining full control of all patent assets dealing with the package. We viewed that as a "full-control incentive." Failure to meet certain conditions of payment or termination by Licensee results in all patents reverting to Licensor.

As to infringement, we had some problems but in the end we recognized that the exclusive rights carried the right to enforce against third parties. Other parties in interest are, however, permitted to employ counsel at their own expense to provide assistance.

We negotiated a license with Stanford, and we next entered into a development program that continues to this day and will probably continue for some time. After hundreds of thousands of dollars and fifteen months, we spoke to our first potential sublicensee and were devastated to learn that this highly esteemed potential sublicensee saw no future for the system. At that point, with costs very high because of the dual full-blown development program, I decided to introduce the system to several potential licensees at once.

Properly couched in clear language and citing simultaneous evaluations by several competitors in the industry, we proceeded. This time we were somewhat dismayed to learn that everybody else wanted the innovation. A new dilemma, but this time we were much more comfortable with it.

We selected an exclusive sublicensee — the sublicensee has probably doubled our development investment to date — initial production is on stream, Burlington is using it, and the product will be made available to the textile industry in 1977.

In this instance, we cannot foresee the future, but we met, the incentives were right, we married, we are the parents of a commercially-viable offspring, and we are working hard to make that innovation a strong commercial citizen.