How To Be a Successful Licensee

Some don'ts prospective licensees should observe for better use of patent laws, less litigation

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As I consider the subject of how to be a successful licensee, three personal experiences come to mind.

In the first, I recall a situation in which I had already granted multiple licenses and was approached by a party seeking to determine his potential status as a licensee. His approach was to point out that:

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a. The patents dominating the program were weak.

b. He was certain *we* would fail to recognize the accomplishments of his company and thus would not take into account the more favorable treatment which he felt he was entitled to.

c. Perhaps our company would be better off to suggest approaches or alternatives other than those used in our license program in order that they could enter the field and we would not be concerned with an ultimate potential infringement situation.

This situation represents the height of audacity and yet is an experience which is many times confronted by a company which has developed commercially accepted programs and under reasonable conditions will share them from a licensing standpoint with others. Obviously, in the minds of the licensor in such a situation, his own patents broaden in their scope and he becomes less tolerant and understanding of his competitor and potential enemy.

In the second situation, I had a multiplicity of licenses, and I was invited to discuss settlement of pending litigation with a substantial company. It was indicated to me that despite the fact that we had a licensing program, it would be virtually impossible to amicably settle the matter. Discriminatory licensing and favored nations clause explanations were unmeaningful. The discussion deteriorated and degenerated any potential relationship between the parties. Suit followed.

Blatant Setting

Third, in a most blatant setting where infringement was based on actual copying of a patented product then being commercialized, the proposed licensee said he couldn't afford to pay a royalty of 1% of th net selling price of an article made to our print. He said he was forced to learn a new technology and buy equipment to make the infringing product to satisfy old customers who had become convinced that the new product would permanently displace the old product made from different materials and in a different art than in which the infringement was occurring. At the same time, the licensor was making in excess of 22% profit before taxes on the identical product being infringed.

On the basis of these experiences, let's discuss don'ts involved in thinking preliminary to becoming a successful licensee. Later I will discuss my recommendations and things relative to a few do's that the courts might envision in situations where a successful licensee relationship with a patentee cannot be accomplished. While some of the following don'ts may seem relatively primitive and simple, it is my sincere belief that attention to these don'ts and the posture that a potential licensee assumes may well avoid problems and trouble with time in negotiations:

1. Above all, don't start out a relationship with a lawsuit.

2. Don't become a licensee without making a full study of validity, infringement, and public use. Far too often, the licensor in a negotiation is truly offended by the lack of knowledge on the part of the proposed licensee who, in his ignorance, is totally willing to challenge the weakness or invalidity of the licensor's position without justification.

3. Don't become a licensee if your basic reason for assuming that posture is your fear of litigation. So often potential licensees, after hearing a suggested royalty rate, propose that the royalty rate be reduced 50% so as to avoid litigation. This is an offensive manner of negotiating and immediately casts doubt on the sincerity of the negotiator. It reflects perhaps a weakness, while reinforcing the licensor's thoughts about suit.

4. Don't contemplate becoming a licensee unless you are going to practice the subject matter of the patent and utilize the benefits of the property right. It is my personal suggestion that it is far better to negotiate for an option or, depending upon your ability, subsequently to sell or not the idea of the license when it truly is necessary and needed. A dilution of your licensor's rights without action on your part is unfair and more often than not gives rise to a subsequent litigating circumstance, an inspection of the books, or the many obvious things that can be done under the provisions of most licenses drawn today.

5. Don't suggest or accept a license from a person or company whose principal product is covered by a patent "you have a liking for" *unless:*

There is good reason to believe that a second source

**Senior vice-president and general patent counsel, Illinois Tool Works Inc. Delivered at LES U.S.A. Central Region Meeting.*

is necessary.

You have improvements that might materially enhance what he has to offer and in all likelihood will permit more than doubling of the market by what each of you has to bring to the table.

Some other salable idea.

6. Don't threaten infringement as an alternative to being licensed — beside the obvious potential of suit based on that type of activity, it has always seemed to me that such a frame of mind in negotiation should alert the potential licensor to the absolute impossibility of a long-lasting, favorable relationship between the parties.

7. Don't approach meaningful patent holders cold. So often, people who approach us for a license neither have an innovative product in mind, are not associated with the particular market with which the product would serve, and are only looking for a fast buck. The most prospective licensees have several alternatives in mind and are seeking to offer a product which perhaps in only one of its forms would infringe your product. Full disclosure of this type permits evaluation by both of the parties, and many times leads to a multiple-product approach to the market which is meaningful, offers competitive aspects, and also helps develop the market more quickly.

8. In companies of any size, don't approach the president or chief engineer. It is my experience that they are not closely enough related to the marketing situation nor do they readily recognize the legal implications of the situation. In this regard, I suppose we could say that if the company is involved in LES, approach the person who would handle the development of product programs in their related legal situation.

9. Don't offer in your negotiations cheap approaches on royalties. Rather, build in incentives to yourself by declining royalty rates with volume or other incentives to your company, thus giving at least apparent value to the inventor's renderings.

10. Don't forget during negotiations to build in appropriate safeguards based on the facts at hand or that you can envision, such as:

If others infringe the patent with time, a clause for ultimate abatement of royalties until the situation is cured.

If antitrust with time may be involved, an appropriate termination clause.

If the product has not been commercially perfected, perhaps the precedent of an option with a license attached.

To assure yourself of favored-nations treatment if the agreement is nonexclusive.

The right of first refusal to purchase the patent if it is offered for sale during the period of your being licensed.

If you are dealing with a large company, attempt to avoid the right to inspect your books and to have them accept in lieu thereof a certificate of your outside accounting firm.

Show a willingness to accept final rulings by courts of last resort.

Demand as a licensee the right to payment of royalties for any improvements that are made available to the licensor during the term of the agreement.

Eliminate exclusiveness and the demands for same by having your own property to give the exclusive edge or advantage to your program.

11. Don't ever believe that you can make your daily bread on a regular basis as a litigating proposed licensee.

12. Don't utilize attorneys who take "cheap shots" at other attorneys, both personally and legally. Study your mentor and counsel. The law was made to do justice; attorneys technically are arms of the court and should not be sought to defend the clever thief.

You may recall situations where, if you had followed one of these tenants, an unsatisfactory negotiation would have been avoided and a successful relationship would have eventuated.

Additional Ideas

In addition, I feel that, with the weakening of our legal system and a failure in many cases to recognize the rights of patentees, some things which would have an ultimate effect perhaps on the nature of negotiations to all persons involved in patentable areas might be strengthened in the courts. Were some of these suggestions adopted, obviously many additional don'ts would be added to my list. Perhaps as the courts pursue justice between parties, recognition of inventors and their works might be enhanced and forwarded by the following:

1. Why shouldn't a court in determining the value of the patent in litigation against a defendant who failed to take a license consider whether or not the invention was, in fact, cheaper and/or better than its predecessor's. These are the things that make purchasing agents buy products and cause people to infringe. In other words, did the infringer infringe because the end result would be that he was making something better than that which is supplanted, or perhaps was it cheaper and just as good as that which it supplanted.

2. Why shouldn't the work product of counsel for defendant, which is the basis for his advice to his client, not be made a part of the record to determine the adequacy of the basis for the posture assumed by the defendant.

3. Charges now prevalent as counterclaims in a lawsuit — such as fraud on the patent office, withholding of the facts to the patent office, antitrust charges without any reasonable basis, invalidity charges using only the art cited by the patent office, etc., etc., etc., — give rise to a proposition that defense counsel post a bond for each such charge. The bond would be forfeited upon failure to establish his position. This is done in some foreign countries. It is my experience that these charges are usually frivolous, conjured up in an attorney's office without knowledge of any basis for them, and taken from the form books as alternatives that he can fall back on if his case relative to validity of infringement fails.

I am not recommending that meaningful differences should not be litigated. Rather, I recommend that, in situations where an infringement of the product has occurred, the role of counsel can truly become one of presenting only the matters and counterclaims which, in fact, have fact in the hand of the attorney at the time of allegation to support them.

The company I represent believes in the patent system in almost blind fashion. We believe that patents are valid until proven otherwise. We believe that those who have developed them are entitled to the fruits of their efforts consistent with the law and dependent upon the scope of the contribution.