

# Licenser/Licensee Research

*Battelle Development uses program to advantage of both parties, but there are problems*

**BY R. F. DICKERSON\***

I shall use Battelle Development Corporation's (BDC) experience and philosophies as a basis for discussing "Licenser/Licensee Cooperative Research."



But before doing this, I will review the objectives and the policies under which BDC operates.

BDC is a wholly-owned subsidiary of Battelle Memorial Institute (BMI). BMI is a not-for-profit trust founded under the will of Gordon Battelle which says essentially that his monies will be used for the establishment of an institute that will have as its objective, the aiding of industry and mankind through science. The

*R. F. Dickerson* will go on to say that one mechanism for this might be licensing or otherwise disposing of ideas.

The first attempt to implement Battelle's will came with the establishment of Battelle's Columbus Laboratories and the introduction of the contract research mode to the general research and development business. The theory was that providing a place with staff and equipment to which a small or large company could buy services would encourage companies to do research and, consequently, improve industry and mankind. I think that this has worked.

In 1935, BDC was chartered for the purpose of finding inventions, evaluating these inventions, developing them, and, eventually, licensing them to industry. BDC was established to provide a mechanism by which licensing could be used as a means of transferring technology to industry; and, also, to provide a place where the small inventor who might not otherwise be able to find support could take his idea, have it developed, and hope to get some return if it were successful.

Because BDC is a not-for-profit organization, founded under the will of Gordon Battelle, there are restrictions. In the first place, we must evaluate every idea from the point of view of its potential aid to mankind. This limits the types of ideas in which we can have an interest. For example, it is difficult for us to justify the development of toys, cosmetics, weapons, items in reference to the liquor industry, etc., as being good for mankind.

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In addition, BDC must add value to any idea or concept that it accepts as a project — marketing is not considered as a value addition. Therefore, we must do either technical development or, at a minimum, patent development on any idea that we accept.

*From LES U.S.A. Central Region Meeting*

Now, let's digress a bit and discuss my opinion of patents and the protection offered by them — remember, I am a layman in every sense of the word. Since BDC has only the protection offered by patents to sell, we, naturally, do a great deal of thinking about patents and the overall situation.

It is my opinion that the strength of protection offered by patents has eroded a great deal over the past 25 years. In fact, it has eroded to the point where we have great concern over the future of the licensing business as BDC does it. I am not saying that it isn't advantageous to have a good patent, but I am saying that the developing attitude of the government and the courts towards patents does not strengthen the situation.

With the decrease in the value of patents, the value of know-how increases. The question is how does an organization like BDC, that cannot as a general rule develop know-how, take advantage of this value. It is obvious that the best one to develop know-how is the company actually working the patents, or in our case, the licensee. This being the case, then, a BDC-type organization must get its ideas licensed to a company as soon as possible.

## Four Points

When you examine the time and costs involved in bringing an idea from conception to commercialization, you can generally establish four points. The first, of course, is conception and reduction to practice. The next is feasibility or the assimilation of data and demonstration which indicates strongly when a process or an invention could go into production. The span of time and amount of cost involved up to the point of feasibility is relatively small in comparison to the whole way from conception to production.

Next comes the prototype or small-scale production, if necessary. This involves a greatly increased amount of time and costs, and, finally, comes production.

It is our feeling that the producing company can best handle anything from feasibility on. Naturally, this is where the know-how is developed. BDC, therefore, attempts to license its projects as soon as feasibility is established.

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# British Law and the EEC

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that the great majority of those reported have dealt with Industrial Property. Thus the field of licensing is one of the prime areas affected by membership of the European Economic Community. It follows therefore that any consideration of a significant licensing program involving the United Kingdom is incomplete unless the Treaty of Rome is borne in mind. However, the future is shrouded with confusion and uncertainty. To quote from the Master of the Rolls in *Bulmer v. Bollinger*:

"The European Court is not absolutely bound by its previous decisions. It has no doctrine of *stare decisis*. Its decisions are much influenced by considerations of policy and economics and, as these change, so may their rulings change. It follows from this that if the House of Lords in a subsequent case thinks that a previous ruling of the European Court was wrong — or should not be followed — it can refer the point again to the European Court and the European Court can reconsider it. On reconsideration it can make a ruling which will bind the parties in that particular case, but not in subsequent cases, and so on."

To those of us who have been brought up in a Common Law jurisdiction with the reverence held due to the doctrine of the binding effect of previously decided cases, this is a difficult new principle by which to be governed!

Another area where there is little authority for guidance is the confusion that may arise where there are related proceedings before both the English Courts and the Commission of the European Economic Community. It is not too difficult to visualize situations where conflicting decisions may be given through these separate channels of judicial and administrative review.

Where we shall probably see much argument in the future is in the general field of antitrust cases of action in Industrial Property litigation. The United Kingdom has a well-developed statute law and case law in the field of Restrictive Trade Practices or Antitrust law. Industrial Property litigation has hitherto been conducted very much in a separate watertight compartment. We are now beginning to see a significant change and can expect that in the future the new torts of undue restriction of competition within the EEC and abuse of a dominant position within the EEC will be pleaded more frequently. The barrier, which some of us may think is artificial, between Industrial Property Law and Restrictive Trade Practices law has not been breached, but it is certainly cracking.

## CITATIONS

*LeRose Ltd. and Another vs. Hawick Jersey International Ltd.*, (1973) CMLR 83; (1974) RPC 42.

*Minnesota Mining and Manufacturing Co. v. Geerpres Europe Ltd.*, (1973) CMLR 259; (1974) RPC 35.

*Eso Petroleum Co. Ltd. v. Kingswood Motors and Others* (1973), CMLR 665; (1973) 3 All ER 1057.

*Aero Zip Fasteners and Another v. YKK Fasteners (U.K.) Ltd.* (1973), CMLR 819; (1974) RPC 624.

*Löwenbrau München and Another v. Grunhalle Lager International Ltd.*, (1974) CMLR 1; (1974) RPC 492.

*Application des Gaz S.A. v. Falks Veritas Ltd.*, (1974) 2 CMLR 75; (1974) 3 All ER 51.

*J. Bollinger S.A. and Others v. Goldwell Ltd.*, (1974) FSR 256.

*H. P. Bulmer Ltd. and Another v. J. Bollinger S.A. and Others*, (1974) CMLR 91; (1974) 2 All ER 1226.

*Van Duyn v. The Home Office*, (1974) 3 All ER 178; (1975) CMLR 1.

*E.M.I. Records Ltd., v. C.B.S. United Kingdom Ltd.*, Times Law Report, March 13th 1975.

## When a License Agreement Fails

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excess of \$100,000. So that lawsuit cost them more than \$160,000. There is no way to measure the additional peripheral expenses of the lawsuit to the licensee. If they had just lived with the license, it would have cost them only about \$120,000. The point that I make is that here is the history of a licensor-licensee fall-out which went to mat and in which the licensee was successful in invalidating a not obviously invalid patent and paid more than he would have had he lived with his license.

### A Final Look

Coming back to the theme of what to do when a license agreement comes apart, the best advice is to be extremely cautious in entering into the license agreement. If sufficiently cautious and perceptive, you may not have to worry about what to do when the agreement comes apart. But if the agreement does come apart, then your planning should tell you what to do. You should be decisive in whatever you do, whether it is suit or abandonment of the license arrangement. Remember if the license agreement comes apart, it's because one of the parties is inclined to make a gamble and play a game. Your only resort is either to enter into the game determined to win or to completely refuse to play. And that decision should be based upon the economics of the circumstance.

## Licensor/Licensee Research

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Please don't confuse this word feasibility with reduction to practice. It is much more than that. It perhaps can best be defined as the point in development when a potential licensee can be convinced the idea is worth spending money for development.

Naturally, this strategy has an effect on the type of idea we accept for development. If, in our estimation, the amount of time and money necessary to get feasibility is too long or great, it is no longer an attractive business proposition. We place the upper limit on time at 18 months with the amount of money limitation depending on what our estimate of the potential return might be. We are interested in returns that throughout the licensing of the patent will give us 10 to 1 on our investment.

We know that potential licensees would much rather pick up a license at a point further down the line towards commercialization. Therefore, we attempt to design our license package to take this into consideration. When we license at the feasibility point, we reduce front-end payments to an absolute minimum. In addition, the license is such that it gives the licensee an opportunity to invest money in contract research on the subject at a Battelle laboratory. This provides an obvious advantage to the

licensee over front-end cash payment. He is getting credit toward the price of the license by doing R&D work that is needed with the cost being handled as an expense.

The approach is advantageous to BDC because the development is where it should be — in the hands of the ultimate producer, and we have a mechanism to be certain that proper development is being accomplished.

### Diligence Requirements

In cases of relatively large developments, we frequently include as diligence requirements, certain amounts of development work. This development work can be done each year until the item is commercialized. This work can be done within the company itself or at a Battelle contract research laboratory. BDC retains the right to review all technical results and audit the expenditures. In certain specialized cases, we have approached this developmental problem by a group type of approach. In cases where we can license an item to a number of different territories throughout the world, we can, as a part of the initial fee, require that these licensees make a research contribution of equal shares each year for a number of years. We then pool this contribution and do development work that has had a review by all of the licensees. By this method, all licensees benefit from a relatively minor contribution, and BDC can remain involved in the basic development for a maximum period of time.

The difficulties with this approach are, of course, the licenses must of necessity be issued at about the same point in time so that the complete funding for the joint research program is available at the same time. It also has the problems in the normal group-type program where the participants in the group feel that they should suggest the program to be followed. When most participants suggest different programs, we have certain problems. Nevertheless, it is a mechanism that has been rather successful in bringing industrial concerns or licensees into the development at a very early stage.

### Problems

The problems when a licensor such as BDC remains involved even on the periphery in the development work that is being done by a licensee are numerous. In the first place, if the licensee is contracting for the work to be done at a laboratory of Battelle, BDC often finds itself in the middle. In those cases, we are neither fish nor fowl. We have a limited say in what should be done, but we have really no mechanism to make sure that it is being done since the research contract is between the licensee and the contract research laboratory.

Another form of cooperative research which we have done occasionally is actually sharing of research costs by BDC and the licensee. In this case, of course, the license takes a different form in that the amounts that the licensee will spend are spelled out. This can be either in cash or the research can be done in kind. In these cases, the development plan is discussed and agreed between BDC and the licensee. Tasks are divided and BDC sponsors certain of the tasks in Battelle's own laboratories while the licensee performs tasks assigned to him in his laboratories or in his plant.

This sometimes is an effective mechanism; however, it

works best when the research and development to be done is relatively minor. For example, if test results are needed on a small prototype motor, the licensee can produce the motor and run certain basic tests while Battelle can run some of the more complicated tests and do other specialized development assignments.

It is our belief that, if possible, it is best the licensee assume the total fiscal responsibility for the development work. The reasons for this are obvious in that the licensee is motivated to get the best development work done since, by the terms of the license, he has to commercialize the product in a finite time. The licensee tends to be more serious about this commitment if he has made the total R&D commitment for the development.

Please do not infer from my discussion that we use the research-sharing approach in one form or another in all of our licensing endeavors — we don't. We do feel that it is one way to encourage the companies who can develop know-how to pick up an idea at a very early stage and commercialize it in an efficient fashion. I think, during the last two years in which we have been approaching things in this manner, the results have been good. In those cases where ideas have not reached successful commercialization, the cooperative development approach has helped establish the fact much sooner than if BDC had attempted to carry out the development by itself.

## New Ruling on Transfer in Spain

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not to appear before the judicial lawsuit, thus automatically prohibiting the execution of the verdict in Spain.

Therefore, contrary to what the licensor first thought desirable for his own account, it would be more advisable for this type of license to establish the competence of the Spanish Tribunals within the applicant's country.

Something of this kind occurs with clauses of arbitration, by virtue of which the licensor more often than not establishes the intervention of highly prestigious international institutions, such as the Court of Arbitration of the Chamber of International Commerce or the American Arbitration Association.

Spain is a member of the Geneva Convention of 1927. This Convention enables the State in which the arbitral decision is to be carried out to control its legality in accordance with internal law. In practice, the Spanish Supreme Court's "exequatur" has not accepted arbitral findings dictated abroad as in many cases these findings have contravened the Spanish law of December 22, 1953 concerning private arbitration.

Tremendous efforts are being made to see that Spain adheres to the New York and Geneva Conventions of 1961. Until this happens, it is advisable to accept submission to arbitration in accordance with the internal Spanish ruling. Apart from the fact that this arbitration is in practice effective and legally correct, the use of foreign arbitration could produce the total inefficacy of the decision dictated, as in the case with verdicts.