by the European High Court. The tendency felt in prior High Court decisions makes it probable, however, that the Court will share the Commission's views.

It may very well be that in the future the decision in many cases will be between an unlimited number of non-exclusive licenses or no license at all. Whether this enhances licensing remains to be seen.

PATENTS AND LICENSES SERVICING THE EXISTING LICENSE

by
*Willard Marcy**

(Reprinted by permission from RESEARCH MANAGEMENT, Vol. 15, No. 6, November 1972)

After license has been executed, both the licensor and licensee have a number of obligations that must be met for the benefit of all parties involved.

If there are two sides to every question, there are also two points of view when it comes to licensing patent rights and then maintaining the licenses. One perspective is that of the licensee. The other, obviously, is that of the licensor. Perhaps the licensee who undertakes to develop a new invention has the more dramatic story to tell. Exploitation of the licensed technology may make or break a multi-million-dollar corporation. After a license covering patent rights has been obtained much research and development is usually still necessary. Plants must be engineered and built and markets must be developed before profitable commercial results can be seen. These formidable tasks will require entrepreneurial and managerial talents, capital and production and marketing capabilities. If the licensee has all these resources and exercises sound judgement, he may succeed.

One might think that the licensor who made all of this possible can simply sit back in anticipation of royalties from initial sales. Nothing could be further from the truth. In a well-drawn license designed to protect both parties, the licensor retains a number of important responsibilities. These responsibilities require diligent attention both before and after commercial sales begin.

I will group the licensor's more important problems into four categories pertaining to the protection of patent rights. I will suggest some factors of which the licensor should be aware and what actions, if any, should be taken to protect the rights of the parties to a licensing agreement, and what should be done to correct misunderstandings, misinterpretations, or rare cases of neglect or criminal intent.

The protection of patent rights involves not only the licensee and the licensor, but other parties at interest the inventor, the federal government or a university, for example. To further complicate the picture, the rights of one party are seldom independent form those of the other parties. Divergent points of view must be considered in resolving difficulties, and past, present and future must be taken into account. With all viewpoints balanced, judgements can be made based on integrity, honesty and a desire to treat all parties fairly. It follows that we cannot make a sharp distinction between patent rights which are primarily of interest to one party as contrasted to those rights which are solely of interest to other parties.

Rights of the Licensor

The first category deals with the protection of rights accruing primarily to the licensor. Number one is the observance of diligence by the licensee. A license should provide a step-by-step recitation of the duties required to present a comprehensive picture of how diligence is to be shown in commercializing the invention. Diligence usually includes undertaking technical research, obtaining government clearances, doing market development, advertising and providing adequate production to satisfy demand. There may, of course, be other requirements. The licensor usually requires a periodic written report from the licensee to reveal whether diligence is being shown. Observance of the diligence requirements is particulary important during the early stages of commercialization before the product is on the market.

The filling of market demands is an extension of diligence requirements. There may be many more marketing possibilities than are apparent at the time a license is signed. Additionally, new markets may develop periodically during the time a license is in effect. The licensor should be alert to these possibilities and call them to the attention of the licensee. The licensor should also be aware of the total demand for the licensed product and alert the licensee to a possible need to expand production facilities. If he demurs, the licensor should seek additional licensees insofar as the terms of the license permit.

Perhaps the most important right accruing to the licensor is royalties. Payment of these may be on an initial lump-sum basis or periodically over the term of the license. Frequently, the licensee has the right to sublicense, collect royalty payments from the sublicensees and retain a portion for his own use. Sometimes the licensor collects royalties directly from the sublicensees. In any case, the licensor must set up procedures to record the receipt of all royalties and to request payment of those that are overdue. Follow-up correspondence may be necessary and stronger measures are sometimes required before final collection is achieved.

The calculation of royalties usually involves the quantity of licensed product sold and its selling price. The simple arithmetical extension of the quantity times the price per unit should invariably be checked by the licensor. Figures on quantities and prices are usually checked by independent audit paid for by the licensor.

A license will occasionally call for payment of royalties in stock or the establishment of other equity in the licensee's corporation. This is especially true with fledgling companies organized to exploit new technical developments. Such a company frequently has been organized by an entrepreneur long on dedication and enthusiasm, but short on managerial talent. The licensor may help provide such talent.

Sometimes a jointly owned company may be set-up and licensed to exploit the invention. In such situations, the licensor's risk is much greater and the financial return less sure, although it may be substantially larger in the long run. To reduce the risk, and hopefully enhance the ultimate return, licensors usually require some additional control over the licensee. This often takes the form of membership on the board of directors, direct and forceful consultation on managerial problems, and other means for maintaining an intimate knowledge of the licensee's activities. Such involvement may extend well beyond the life of the license.

Rights accruing to the licensor may also include some control over product quality, the use of names and national advertising. Where it is desirable to include these factors in a license agreement, the licensor should set up control mechanisms to insure that the agreement is maintained. It is not desirable to allow a licensee to indiscriminately use the name of an inventor or his employer in advertising or sales brochures. Such use may lay the inventor or his employer open to unfavorable publicity and, in the extreme, lawsuits. The licensor should be alert to the use of names without his consent, and call it to the attention of the licensee.

The licensor should approve standards set up by licensees and develop a means for spot checking the marketed product to see they are maintained. The licensor should also monitor the licensee's national advertising through periodic reports of the licensee's advertising budget, copies of actual advertisements along with a schedule of their appearance, or by engaging an outside clipping service.

Rights of the Licensee

The second category pertains to the protection of rights accruing primarily to the licensee. Protection of the licensee against patent infringement heads this list, and patent licenses generally contain an infringement clause. It is the responsibility of the licensor to see that any infringements are stopped. The infringement provision may allow the licensee to bring suit against infringers, if the licensor does not. Frequently, a licensee requires the licensor to protect him from infringement suits brought by third parties alleging infringement of patents owned by others. Licensee and licensor usually cooperate in discovering infringement situations and in working out the best methods for resolving them.

Inventions that are useful in more than one field further complicate the picture. These fields of use may be separated by technical, geographical or marketing considerations. Multiple licensing becomes essential to fully exploit the invention, and the licensor must keep constant vigilance to prevent encroachment by either licensed or unlicensed competitors. Both the negotiation and maintenance of field-of-use licenses are fraught with pitfalls. There must be a clear, readily acceptable reason for such licensing; otherwise, antitrust laws may prohibit it as being in restraint of trade.

If a license refers to know-how or trade secrets as well as to patents, the licensee may also have the right to be kept informed about new developments as they occur. This know-how right may obligate the licensor to set up a reporting system to insure that the licensee promptly receives new information. Under some licenses, know-how must be transferred between licensees using the licensor as the transfer agent.

A final right accruing primarily to the licensee is expressed by most-favored-licensee clauses. This type of clause protects the licensee against the licensor concluding a more favorable agreement with a possible competitor. While it may be possible for more favorable terms to be secured in all parts of a license, the royalty base or rate and the minimum royalty provisions are the most important. The licensor is obligated to supply information on any more favorable terms to all other licensees. This may result in renegotiation of the original licenses.

Mutual Interests.

Our third category pertains to the protection of mutual interests. If any original patent applications, continuations-in-part, divisional or reissue applications are still pending or are expected to be filed at the time a license agreement is executed, the licensor is obligated to pursue these to issuance or final rejection. Obtaining as strong a patent position as possible is in the best interest of both the licensor and the licensee.

In complex situations, the licensee may, at his expense, provide additional supporting examples and aid in the drafting and prosecution of the patents. This requires considerable coordination and frequent discussions between licensee, licensor and their patent attorneys. The licensor is also obligated to deal with any patent interferences that might arise.

The protection of mutual interest also involves foreign patent prosecution and maintenance. As in the United States, the filing and prosecution of patents abroad is usually the responsibility of the licensor. Since most foreign countries require the payment of annual maintenance fees and satisfaction of working requirements to keep the patents from lapsing, he will have to keep track of due dates and arrange for payments.

The costs of foreign prosecution and maintenance may be shared by both licensor and licensee. Since the total fees can be substantial, the licensor usually agrees to pay only for protection in those countries where bona fide markets are likely to be established. If the licensee wants a protective patent position in other countries where manufacturing facilities exist but markets do not, he can usually be persuaded to pay for such protection. In any event, expert coordination of effort is needed to meet all patent deadlines, and this is usually best achieved by the licensor.

Patent pools are another area of mutual interest. With many investigators working in the same field, identical or closely related inventions are often made almost simultaneously. If the inventors are — as is frequently the case — employed by different organizations, the formation of a patent pool may be the best way to get the new technology into the hands of the public.

The patent pool licensor must maintain adequate records of income from the several licensees so that proper distribution can be made to the patent owners involved. In addition, the pool owner is obligated to see that the pool licenses do not violate antitrust or restraint-of-trade laws. Since this is an intricate area, the use of expert legal counsel in drafting and maintaining the license is an absolute necessity.

Some inventions lend themselves to the establishment of trademarks for the development and maintenance of optimum market potential. A trademark position can be established by either the licensor or the licensee, and may be in their mutual interest. The obligation of maintaining a trademark, at the least, involves maintenance of the trademark in the patent office and its assertion or defense against similar marks. Also required is continuous national advertising and the setting up of an adequate quality control system for the benefit of all licensees.

During the effective life of a license, license changes may be needed to protect mutual interests. They may become necessary because of unexpected production difficulties, shifts in expected markets, changes in corporate ownership, revisions of tax laws and so on. License changes may be initiated by either the licensee or the licensor. They most frequently involve modifications of the length of the exclusive period, the royalty base, royalty rate or minimum royalty.

Rights of Other Parties

The fourth and last category relates to the protection of the rights of others. When the inventor is a faculty member or university employee, the university generally asserts some rights to his invention. Since the institution is not interested in manufacturing products or using a process under license, its rights are usually satisfied through a royalty-sharing arrangement — whether or not it takes title to the invention. If co-inventors are involved, they usually share royalties according to some equitable formula.

In some cases, a company, university or inventor may use an outside organization, such as Research Corporation, for patenting and licensing. In this case, the usual procedure is to assign patent rights to that organization under terms of an assistance agreement calling for the sharing of royalty income.

No matter how many parties are involved, the licensor is obligated to maintain suitable financial records during the life of the license and pay out proper shares of royalties. Additionally, a written report of all licensing activities, usually on an annual basis, must be provided to the other parties in interest.

If some or all of the funding of the research that leads to an invention is provided by private charitable sources or governmental agencies, these granting bodies have certain rights which must be protected. Where governmental agencies provide aid, certain restrictions are imposed on patent ownership and licensing terms. The patent licensor is usually required to make sure the restrictions are observed and to make annual reports to the agency to insure adequate and prompt exploitation of any invention for the benefit of the public. Failure to exploit adequately frequently leads to a recapture of patent ownership by the government. This is referred to as a "march-in right."

We have explored briefly a number of obligations that a licensor automatically assumes with the signing of a license agreement. These obligations must be met for the benefit of all parties to the license agreement. The scope and length of the list, which is by no means exhaustive, serves to indicate the diverse talents and disciplines needed by the licensor to fulfill his obligations after the license has been executed.

To some of us deeply involved in the evaluation, patenting and licensing of inventions, the most exciting part comes after the license is issued. At this point, the licensor must quickly become alert to all activities of the licensee and his competitors, exercise great diligence in recognizing and averting legal entanglements, develop and use imaginative solutions to unique problems, maximize return on capital assets, and insure prompt and widespread use of an invention which has been granted a temporary monopoly under the United States Constitution.

**About the Speaker: Dr. Marcy is Vice President, Patents at Research Corporation, New York, N. Y. He has degrees in chemistry and chemical engineering from Massachusetts Institute of Technology. He was a research associate at MIT for three years and a research manager at American Sugar Company before coming to Research Corporation. He presented this paper at a meeting of the National Council of University Research Administrators last Fall.*

PATENTS AND LICENSES INVENTION LICENSING STRATEGY

by
*Vincent E. Young**

(Reprinted by permission from RESEARCH MANAGEMENT, Vol. 15, No. 6, November 1972)

Seeking licensees and working out mutually satisfactory agreements with them, requires care, skill and an awareness of possible pitfalls.

Licensing is the moment of truth for an invention. It is during licensing that an invention leaves its friendly, sheltered environment and must find its place in the world of business. Someone else must now be found who will share (and finance) the inventor's enthusiams for the invention and carry through to commercial success. Thus, the licensing step must be executed with great care and skill. Failure at this point negates all that has gone before.

Typically, licensing involves the following vital elements:

Licensing Strategy
- Understand the invention and its significance
- Identify the potential market and its size
- Patent Protection
- Selection of licensee
- How many licensees