

How Digital Mines Its IP Gold

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Identifying the locations of the corporate IP mines, the Corporate Licensing Office makes the property, mine's only to maximize returns.

Intellectual Property in the form of patents, copyrights, trade secrets and trademarks has been referred to as "the new wealth of nations."¹ It is replacing natural resource and industrial base as the principal factor that makes a nation prosperous. The emergence of IP as the world's new "gold" means that more and more companies are coming to see licensing IP as a way to increase the return on R&D investment. In 1991, Digital Equipment Corporation established the Corporate Licensing office to begin work in this crucial area. This article will describe how Digital conducts its licensing operations.

The Proprietors

Digital's proprietors are the licensing executives, people whose backgrounds include a blend of engineering and technical knowledge, business experience and training in licensing. Their experience at Digital ranges from 10 to 20 plus years. They know the technical landscape and how to "stake their claim" to promising IP.

Using the Gold

Digital mines its intellectual gold in the research and development programs of its laboratories and in the business units where products are designed.

The licensing office uses multiple techniques:

- The office is administratively a unit of Digital's Corporate Strategy and Technology organization, the

organization that administers Digital's Research and Advanced Development Laboratories in California and Massachusetts. These laboratories are promising prospecting grounds. Working with R&D Business Development personnel, the licensing office seeks the best use of Digital's newly developed technologies. These technologies are developed principally to enhance Digital's products and processes. However, licensing is a viable alternative for technology that either the business units decide not to use or where licensing is complementary to Digital's corporate goals and strategy.

- The Corporate License office's Patent Audit described in the March, 1992 *IS* Newsline article entitled "Patent Audit Maximizes Return on IP" by Don L. DeLorenzo, a Digital licensing executive, involves the evaluation of each of Digital's approximately 3,000 patents, and each new patent as it is filed. Every patent is reviewed by a licensing executive and the inventor (if available), or another expert in the patent's field to determine its licensing potential.

- Licensing executives are also involved with each of Digital's Business Units' Invention Review Committees. These committees review Digital's inventions to determine how they fit with Digital's Intellectual Property strategy. They recommend future disposition of the invention (e.g. patent, trade secret, defensive publication, etc.) This allows licensing executives to stay current with the latest inventions and to add their expertise to these committees.

- When the use of a given Digital technology results in a program cancellation, end-of-life or obsolescence of a product, the Licensing Office evaluates the technology for its li-

censing potential. Technology currently in use may also be suitable for licensing, if a complementary (or a non-competing) use exists.

- From time-to-time, employees familiar with Digital's technology may see another company's product that looks strikingly similar to Digital's in its design, performance, features, etc. The Licensing Office recognizes such observations and follows up with an infringement analysis, if warranted.

EVALUATING THE MINE

After technology is identified as viable for licensing, the licensing executive evaluates it for the following characteristics:

- **Completeness:** Is the technology in a useable state? If not, is the technology worthy of completion and does Digital have the resources to complete it? Alternatively, are potential licensees available who have the skill and resources to complete it?

- **Ownership:** Does Digital have full title to the technology? Consultants, partners, inventors and others who work on the technology may have a claim of ownership. Also, any part of the technology taken from a non-Digital source, e.g. software — code "borrowed" from a clipboard — may interfere with clear ownership. The Licensing Office will, if possible, "clear up" any ambiguities in Digital's title.

- **Strength:** Will the patent, copyright, etc. withstand challenge, especially in an infringement case? Patents are prosecuted to be valid where issued by the U.S. Patent Office. However, the presumption can

¹ *Washington Post*, "The Patent Race: The Fight to Own the World's Technology" (July 1984), p. 10.

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be overcome it, for example, someone can show that the invention was in the public domain prior to filing.

- **Uniqueness:** Does this technology provide the only, best, fastest, or cheapest way to do something? If not, why would anybody license it?

- **Marketability:** Is there a market for this technology? Licensing executives conduct a thorough market analysis to answer this question.

- **Valuation:** What is this technology worth? Licensing executives use accepted and up-to-date valuation methods.

- **Corporate Due Diligence:** Does licensing a certain technology complement Digital's goals and objectives? Are we creating a competitor? If an enforcement mechanism, is the alleged infringer a customer, supplier or partner? Will taking aggressive actions evoke a counterclaim?

Mining the Gold

Once the "intellectual find" is judged to be of sufficient potential, the Licensing Office must seek the necessary approvals to go forward. Licensing strategy technology requires formal approval from the Vice-President of the Business Unit responsible for the technology. A licensing executive will present a formal proposal to the Vice President or his/her designee, which includes marketing data as well as the possible benefits and risks associated with the program. If approval is obtained, the Licensing Office notifies others at Digital having an interest in the technology, such as other business units that use it.

Relationship managers and account managers are also informed of any relevant potential infringements.

Feeding the Gold Miner

Additional market research is conducted by the licensing executives assisted by the Licensing Office's own project specialists of internet, electronic services and the Corporate Library. After identifying the market segments that can best use the technology, licensing executives contact promising prospects directly by mail, telephone or face-to-face to demonstrate how Digital technology can benefit them. Interested prospects are further qualified to assure that they have sufficient financial resources and/or credit history to support their anticipated business development, marketing, and payment obligations. In addition, for a royalty arrangement to be successful, the prospect must have the technical resources to sustain a successful licensing program. This is particularly true in an exclusive licensing transaction, where the licensee will be the only source of royalties.

Selling the Gold

Once a prospective licensee shows sufficient interest, the licensing executive assembles a negotiating team consisting of relevant business, technical and legal backgrounds. Together, they set a strategy to determine the best way to exploit the technology. Often, a term sheet will be created to set out the range of negotiating goals. At this point, they settle issues such as whether the license will be exclusive or nonexclusive, how Digital

will be paid (e.g., licensing fee and/or royalty), and whether Digital will have grant-back rights in improvements. The team then negotiates an acceptable, written license agreement. Its signature by the appropriate Vice-President or authorized signer, in enforcement cases, should Digital be unable to settle amicably with the licensee, the licensing executive will then work with the business unit or legal department with the Law Department in order to resolve the matter.

After the Gold is Sold

Licensing executives oversee the technology transfer. They work with the business unit or laboratory to insure the technology is delivered on time, via the correct media, and that any promised technical assistance is provided. The licensing executive — always alert for potential problems — continues to manage the relationship by maintaining contact with the licensee, and interested Digital parties.

Meanwhile, the Licensing Office's royalty administrator keeps track of required royalty reporting and conducts internal fiscal reporting. Mixed reports or payments, unusual royalty trends and other signs can trigger action to investigate, such as conducting audits of licensees if warranted and, as a last option, possible legal action.

CONCLUSION

Licensing is an extremely viable option used to capitalize on Digital's intellectual gold. The Licensing Office exists to help each business unit and laboratory maximize its investment in technology.