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Simply Wrong: The 25% Rule Examined

By Douglas G. Kidder and Vincent E. O'Brien

Overview

The recent Uniloc ruling[1] that, on its face, unequivocally barred the use of the 25% Rule in litigation has triggered a discussion about the rule. Recently Robert Goldscheider, who was credited by the court as the originator of the rule, wrote an article explaining why he believed the ruling was incorrect.[2] We read Mr. Goldscheider's article with interest but were disappointed that, apart from a few minor details, the article did not add much to the discussion.

In the body of this article, we have summarized the reasons why we believe that Uniloc was absolutely on point and long overdue.[3] To begin with, there is no "rule" per se. Proponents of the rule generally describe it as being between 10 percent and 35 percent of either operating profits or gross profits. However, none of the proposed formulations have any theoretical or empirical basis to them. Support for the rule is largely secondary (articles referencing other articles describing the 25% Rule), normative (justifying the rule because it is believed to be normal practice) or anecdotal (referring to instances in which the 25% Rule was used). The two analyses that attempt to empirically verify the proposition that royalty rates are 25 percent of profits, fall apart under scrutiny. In the end, we believe that the Court in Uniloc got it right: "…the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation."[4]

2. There Is No "Rule"

Despite Mr. Goldscheider's recent article, the 25% Rule is best characterized as a "Rule of Thumb" because there is no single, definitive statement of the rule. In an attempt to clarify the rule, we endeavored to locate every article referring to the 25% Rule published prior to the Uniloc decision (38 in total) and noted the division of profits suggested (*e.g.* 25 percent), the level of profits suggested (*e.g.* gross profits, net profits), the basis for the rule (*e.g.* normative, anecdotal, secondary) and the source.[5] The definitions of the 25% Rule and a count of the number of articles espousing a particular definition are shown in Table 1 below.[6]

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There are two points to read into this table: 1) support of the rule is almost entirely secondary (citing another article that discussed the 25% Rule), normative (claiming that it is used in licensing transactions) and anecdotal (anecdotes about how the author once used the rule in a licensing negotiation), and; 2) there is no commonly accepted definition of the 25% Rule.[8] We will take these two points in turn.

The single largest source of support for articles espousing the 25% Rule are other articles espousing

Table 1: Support For The 25% Rule In Literature

PERCENT OF PROFIT		TYPE OF PROFIT		SUPPORT	
Range	#	Definition	#	Type	#
25%	22	Gross	12	Secondary	14
25-33%	6	Unspecified[7]	12	Normative	8
15-25%	3	Net	10	None	7
10-30%	2	Operating	3	Anecdotal	5
10-35%	2			Empirical	2
10-25%	1			Theoretical	2
20-33%	1				
15-35%	1				

1. *Uniloc USA v. Microsoft*, U.S. CAFC 2010-1035, -105, January 4, 2011.

2. Goldscheider, R., "The Classic 25% Rule," *les Nouvelles*, September 2011, pp. 148–159, at p. 155.

3. Original draft of this article is 45 pages long and was drafted just prior to the Uniloc decision—which we believe rendered the discussion moot.

4. *Uniloc USA v. Microsoft*, U.S. CAFC 2010-1035, -105, January 4, 2011.

the 25% Rule with the second source of support being normative. But to be generally useful, the 25% Rule must reflect some underlying, verifiable scientific principle. If the 25% Rule was as widely used in licensing as its proponents claim, an empirical analysis of royalty rates and profits would show a clear relationship. Without such independent verification, the 25% Rule is no more than assertion. As we'll discuss later the two attempts at empirical validation of the rule fall flat.

The 25% Rule has no common definition. It has been stated as a range from 10 percent—35 percent of either gross or net profits. The proposed range between 10 percent of net profits and 35 percent of gross profits could easily cover an order of magnitude difference. While the consensus of the authors centers on 25 percent, there is certainly no general agreement that it is 25 percent and only 25 percent. The authors are split roughly into thirds on the level of profits to be considered as between gross, net and unspecified.

Even Mr. Goldscheider is unclear in his definition. In his most recent article, Mr. Goldscheider stated that the rule is a 25:75[9] split of operating profits or "pre-tax" profits.[10] This matches the definition he used in 2002:

> …the 25 Per Cent Rule is an allocation (or splitting) of operating profits. Explicit consideration is given to all of the costs, including non-manufacturing overhead, that are needed to support a product or are driven by the product. The Rule is not a split of gross profits.[11]

However, in 1971 and in 1984, Mr. Goldscheider defined the rule as calling for 25 percent of gross profits:

> A rule of thumb that royalties shoud [sic] be 25 percent of the gross profits has been successfully argued, and has frequently resulted in the licensor obtaining a rate higher than the so-called "standard" 5 percent.[12]
>
> According to this hypothesis, a licensor that brings a respectable quantum of intellectual property rights, including ongoing support, to the bargaining table should be entitled to a royalty, however calculated, that is equivalent to 25 percent of the gross profit before taxes expected to be realized by the licensee from its operations under the agreement. This is merely a starting point for setting a figure, to be raised or lowered, depending on the qualitative and quantitative contributions of the respective parties.
>
> So long as the "25% Rule" is recognized as being a relatively crude tool, or starting point, that is applicable in some-but by no means all-circumstances, it can have value as part of the exercise.[13]

Even though Mr. Goldscheider now unequivocally states that it is operating profits that are to be considered, at least one court has specifically allowed testimony based on the use of gross margin for the 25% Rule.[14]

Some proponents of the 25% Rule have proposed that it is really a "rule of thumb." Making the 25% Rule a heuristic does not cure its problems. It is still not based on theory or empirical evidence. It is simply a random starting point which, by itself, makes it inadmissible in court.

The 25% Rule does not correctly identify profits that might potentially be split between the licensee and licensor. The 25% Rule considers profits at the level of the product and not at the level of the patented technology, *i.e.* it considers all profits from the patented product and not just the profits attributable to the patented feature. Profits for almost all products result from more than just a patented technology. A patented technology that is a minor improvement will yield very little additional profit margin (if any) to an existing product and yet the 25% Rule allocates approximately 25 percent of the entire profits of the product to the patented technology. If an allocation of profits is appropriate (and any such allocation implicitly rejects any non-infringing alternatives), the only economically rational profits to be allocated are

5. For a copy of the table of articles reviewed, please contact the authors.

6. Note that a single article may support the use of the 25% Rule in multiple ways and a few of the articles were critical of the 25% Rule and thus offered no support.

7. Includes such definitions as "true," "potential" and "realized."

8. Of the two theoretical justifications for the rule, one posits it as a special case and the other is little more than assertion.

9. Goldscheider, R., "The Classic 25% Rule," *les Nouvelles*, September 2011, pp. 148–159, at p. 155.

10. Goldscheider, R., "The Classic 25% Rule," *les Nouvelles*, September 2011, pp. 148–159, e.g. pp. 152, 156.

11. *Emphasis in the original*. Goldscheider, Jarosz, Mulhern, *Use of the 25% Rule in Valuing IP*, *les Nouvelles*, December, 2002, at 131.

12. Goldscheider & Marshall, *The Art of Licensing from the Consultant's Point of View*, The Law And Business Of Licensing 2, Clark Boardman Co, 1980, at 652.

13. Goldscheider, "Role of the Expert Witness," *les Nouvelles*, March 1984, pp. 1-6, at p. 3.

14. *Civix v. Expedia*, 2005 WL 5961023 (N.D.Ill.).

incremental profits that are unobtainable without the use of the patented technology, not the entire profits generated from the sale of the product.[15]

3. Theoretical Problems With The 25% Rule

From a legal perspective, the 25% Rule appears to circumvent the current law. Prior to 1946 infringer's profits were an available damages remedy but the courts struggled with the difficult question of how to apportion those profits between the patent and other business assets.[16] The 25% Rule doesn't even attempt to address this difficult question; it simply allocates 25 percent of all profits from infringing sales to the patent-holder. Wrapping the crude split of the infringer's profits in the cloak of a reasonable royalty does nothing to alter the underlying fact that it is simply a 75/25 split of the infringer's profits with no basis for such a split. As the U.S. Supreme Court wrote in Aro:

> But the present statutory rule is that only "damages" may be recovered. These have been defined by this Court as "compensation for the pecuniary loss he [the Patentee] has suffered from the infringement, without regard to the question whether the defendant gained or lost by his unlawful acts." *Coupe v. Royer*, 155 U.S. 565, 582. They have been said to constitute "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." *Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552. The question to be asked in determining damages is "how much had the Patent Holder and Licensee suffered by the infringement. And that question [is] primarily: had the Infringer not infringed, what would the Patent Holder-Licensee have made?" *Livesay Window Co. v. Livesay Industries, Inc.* supra, 251 F.2d, 469, 471.[17]

From a theoretical perspective a key underlying premise of the 25% Rule is demonstrably false. If the 25% Rule is valid, then the royalty rate should increase with the profitability of the licensee. If royalty rates and profits were linked, then we would see license rates for the same patent that varied by the profitability of the licensee. For example, we would see that the MPEG patents that enable digital music would command different rates when used in more and less profitable products. Yet, in our experience, this has simply never been the case.

Rights to the same patents under the same terms are typically licensed for the same rate. In actual license negotiations, we've never seen a situation in which, all else being equal, a highly profitable company is asked to pay more for a license than an unprofitable company. Even if the licensee is losing money on the patented product, the licensor is still entitled to a royalty. The parity of license terms is sometimes even written into the contract in the form of a most-favored licensee clause.

In fact even Mr. Goldscheider's genesis story for the 25% Rule leaves no variability for the different profit margins of the licensees.[18] According to the 25% Rule, the royalty rate should have varied from 5 percent; somewhat lower for lower-profit companies and somewhat higher for higher-profit companies. While each of the licensees may well have agreed to a standard rate of 5 percent, it is almost certainly not the case that each of the licensees managed to obtain identical 20 percent profit margins in different years across different geographies.

4. Empirical Evidence Does Not Support The 25% Rule

Neither of the two published analyses that attempt to justify the 25% Rule empirically offers much support. In 2002 an article was co-authored by Goldscheider, Jarosz and Mulhern published in *les Nouvelles*[19] and as a chapter in a book.[20] In 2009 a white paper by Kemmerer and Lu was posted on SSRN.com.[21]

The relationship being tested in both these papers, even if found to hold, would offer only tenuous support for the 25% Rule. Both papers attempt to show a relationship between average industry profits and average industry royalty rates. A better empirical test of the 25% Rule would relate the profits from licensed products to the royalty rates paid for those products since the 25% Rule is applied at the level of the product, not the industry. Looking to industry profits and industry median rates are two levels re-

15. For a more complete discussion of this see: Kidder, D., O'Brien, V., "Infringer's Profits Should Not Be the Focus of Patent Damages Cases," Dunn on Damages (4), Fall 2011.

16. 7, Donald S. Chisum, Chisum on Patents, Matthew Bender, §20.02[3]–[4].

17. *Aro Manufacturing v. Convertible Top Co.*, 377 U.S. 476, 507 (1964).

18. Goldscheider, R., "The Classic 25% Rule," *les Nouvelles*, September 2011, pp. 148–159, at p. 152.

19. Goldscheider, Jarosz & Mulhern, *Use of the 25% Rule in Valuing IP*, *les Nouvelles*, December 2002.

20. Smith & Parr, Intellectual Property: Valuation, Exploitation And Infringement Damages, John Wiley & Sons, 2005.

21. Kemmerer & Lu, *Profitability and Royalty Rates Across Industries: Some Preliminary Evidence*, white paper available on *SSRN.com.*

moved from the product. Thus the best the analyses could hope for is indirect support for the rule.

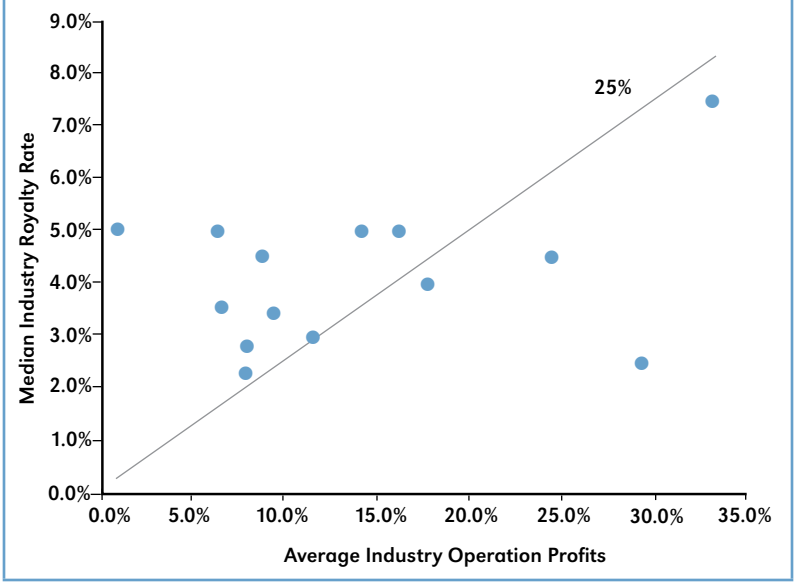
There is no reason to believe that industry-level profitability is a good proxy for the profitability of any single company (much less any single product). As Professor Richard Rumelt observed in 1987:

> Empirical work also reveals that the dispersion of long-term profit rates within industries is very much larger than the dispersion of industry profit rates across industries. For example, applying a variance components analysis to rates of return on capital displayed by 1,292 U.S. corporations over a twenty-year period obtained the results shown in Table 7-1. The data show that the variance in long-run profitability *within* industries is three to five times larger than the variance *across* industries. Clearly, the important sources of excess (or subnormal) profitability in this data set were firm specific rather than the results of industry membership.[22]

Thus, the biggest source of variability in profitability is not *inter*-industry, but rather *intra*-industry. When the same patents are licensed to multiple competitors in an industry for the same royalty rate, the 25% Rule simply fails (unless by some happenstance all of the companies had identical profit margins that happened to be four times the royalty rate.)

Goldscheider, Jarosz and Mulhern's analysis and resulting conclusions are deeply flawed. The authors concluded that the average royalty rate as a percent of average profits across all industries was 25 percent[23] This conclusion is entirely misleading as their data shows no relationship between average industry profitability and median royalty rates. Figure 1 plots Goldscheider, Jarosz & Mulhern's royalty rates against their calculated industry profitability with each point on the chart representing a different industry.[24] Also shown is a line that represents the 25% Rule. Simply by observation the line is not representative of the data–a flat line at 4 percent could just as easily have been drawn. More importantly, when analyzed by proper statistical tests, the line fails to fit the data.

Figure 1. Goldscheider, Jarosz & Mulhern Data



A simple linear regression using the Average Industry Operating Profits to predict the Median Industry Royalty Rate shows that the coefficient is not statistically different from zero.[25] Therefore, using this data set there is no statistically significant relationship between "average industry profitability" and "median industry royalty rate"; much less a 25 percent relationship.[26]

The available data for this analysis will also tend to bias the royalty rate upward. The data used

22. *Emphasis in the original*. Rumelt, R., *Theory, Strategy and Entrepreneurship*, "The Competitive Challenge," Harper & Row, 1987, at 141.

23. Goldscheider, Jarosz &Mulhern, "Use of the 25% Rule in Valuing IP," *les Nouvelles*, December 2002, at 133.

24. Note that the "Media and Entertainment" industry was omitted from their analysis.

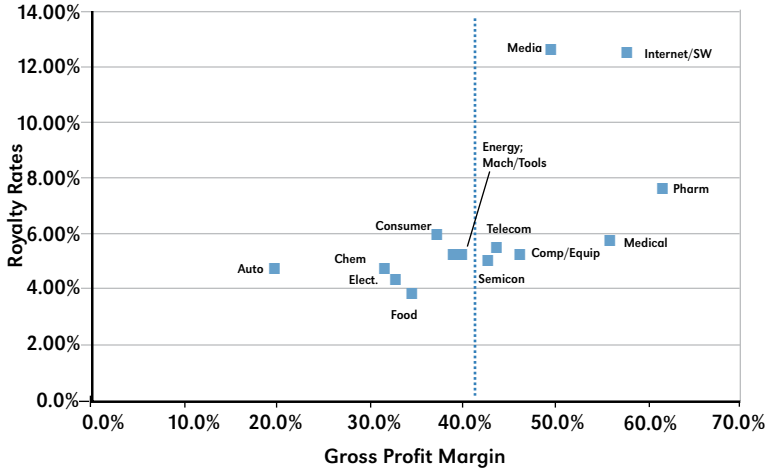
25. The regression has an Adjusted R-squared of 0.033, Intercept of 3.4 percent (T-statistic of 5.22), and Coefficient of 4.8 percent (T-statistic of 1.2).

26. If anything, the chart shows that royalty rates range between 2 and 5 percent. This, however, is wrong because of a bias in the data used in the study which comes from a service called RoyaltySource (*http://www.royaltysource.com*). RoyaltySource collects its data from publicly-available documents such as submissions to the Securities and Exchange Commission and licenses reported in the press. Both are upwardly biased. The first source requires that only significant licenses need be revealed. The latter would by its nature only include licenses the parties deemed significant. Licenses to valid patents that have nominal royalty rates are not likely to be considered significant and are thus not likely to be included in the RoyaltySource data.

In an attempt to better understand the data, the authors sought to obtain a disaggregated set. John Jarosz, an author of the article, replied that they only obtained the industry median royalty rates from RoyaltySource and no further detail was available. We were also unsuccessful in obtaining the raw data directly from RoyaltySource. Thus, the Goldscheider, Jarosz and Mulhern data cannot be replicated or otherwise verified.

in the analysis is collected from publicly-available documents such as submissions to the Securities and Exchange Commission and licenses reported in the press. Both sources will tend to only report licenses with higher rates. The SEC only requires that significant licenses be revealed while license terms that are publicly revealed would only include licenses the parties deemed significant. Patent licenses with nominal royalty rates are not likely to be considered significant and are thus not likely to be included in this data.

Figure 2. 2007 Reported Royalty Rates And Gross Profit Margins



Our conclusion about the lack of support for the 25% Rule in the Goldscheider, Jarosz and Mulhern article is supported by Kemmerer and Lu. They conclude that:

> As a result, using the data in Goldscheider, *et al.* (2002), we cannot demonstrate that there is general linear relationship between the reported royalty rates and operating profit margins across the 14 industries defined by the authors.[27]

Kemmerer and Lu continued further by constructing their own data set with company profitability and median royalty rates. They were able to find a relationship if EBITDA margins are used and the data are truncated to remove any companies with negative margins. We believe that the relationship found is an artifact of the analysis and does not hold up under any serious scrutiny.

To begin with, we don't know of any principle that would justify calculating industry average profit margins by excluding the money-losing companies in that industry. Unprofitable companies still pay royalties–almost certainly at the same rates as profitable companies. We believe that this truncation likely had a material effect on the results.[28]

Based on their summary charts and tables, it does not appear that Kemmerer and Lu's analysis has any more validity than Goldscheider, Jarosz & Mulhern's. Their graphical presentation of the data shows that their conclusions are heavily dependent on the "Media"[29] and "Internet/SW" industries that have median reported royalty rates in excess of 12 percent. Yet we know from personal experience that the licenses in those industries frequently include far more than just patent rights. In particular, in software, a 12 percent royalty rate is indicative of a software license (*i.e.* rights to working code), not a patent license.

There are additional problems with the data used by Kemmerer and Lu. The median royalty rates and the industry average profits do not match in time: royalty rates were calculated over a 21-year span while the profits were calculated over a 3-year span. There is a high likelihood that the reported royalty rates are inflated because of the reporting bias noted earlier and the inclusion of rights beyond just patents. (Note that this is also the case in Mr. Goldscheider's genesis story in which the licensed properties included trade secrets, trademarks and ongoing technical support which are rarely if ever part of the hypothetical negotiation in patent damages.)[30]

In conclusion, the two papers which attempt to provide empirical support for the 25% Rule are both fatally flawed. The 2002 paper by Goldscheider, Jarosz and Mulhern does not support any relationship between industry average profits and industry average royalty rates. The 2009 paper by Kemmerer

27. Kemmerer, Lu, *Profitability and Royalty Rates Across Industries: Some Preliminary Evidence*, white paper available on SSRN.com, at 11.

28. We requested a copy of the data used in the paper from the authors, but were politely declined.

29. Kemmerer & Lu further note that the Media industry accounts for only 1.4 percent of the total transactions in the database, while Medical and Pharm together account for over half of the transactions.

30. Goldscheider, R., "The Classic 25% Rule," *les Nouvelles*, September 2011, pp. 148–59, at pp. 151–152.

and Lu finds a relationship between royalty rates and industry profits but we believe that relationship is spurious because it requires excluding unprofitable companies from the data set, is heavily dependent on the "Media" and "Internet/SW" industries for which the reported median royalty rates are inflated by a great deal more than patent licenses, and suffers from additional issues.

5. Bias and Anchoring

We believe that the 25% Rule tends to over-compensate patent holders since the 25% Rule is based on the profits of the entire product and not just the additional profits from the patented technology. In his 1971 article, Mr. Goldscheider supported this view by arguing that the 25% Rule led to higher rates:

> A rule of thumb that royalties shoud [sic] be 25 percent of the gross profits has been successfully argued, and has frequently resulted in the licensor obtaining a rate higher than the so-called "standard" 5 percent.[31]

An upward bias from a starting point based on the 25% Rule will remain in place during the analysis due to a phenomenon that behavioral economists refer to as anchoring. As described in the seminal paper on anchoring:

> **Adjustment and Anchoring**
>
> In many situations, people make estimates by starting from an initial value that is adjusted to yield the final answer. The initial value, or starting point, may be suggested by the formulation of the problem, or it may be the result of a partial computation. In either case, adjustments are typically insufficient. That is, different starting points yield different estimates, which are biased toward the initial values. We call this phenomenon anchoring.[32]

While proponents of the 25% Rule argue that it should be used with caution and only as a starting point, the inherent bias in the estimate is almost certain to flow through to the final conclusion.

Anchoring has been investigated and found to hold true in a wide range of situations in the thirty-five years since it was described in the Tversky and Kahneman article.[33] While we are not aware of any research testing it specifically in the context of patent damages, it has been shown to hold in the court room in criminal sentencing decisions:

> Anchoring effects–the assimilation of numerical judgments to a given standard–have been demonstrated in many judgmental domains. Even sentencing decisions are subject to anchoring effects. In court proceedings this gives disproportionate weight to the prosecutor, whose sentencing demand serves as an anchor. The prosecution's sentencing demand even affects defense attorneys, who assimilate their own sentencing recommendation to it. This influence seems to remain outside of defense attorneys' awareness. Expertise does not attenuate this bias. Accordingly, defendants might be better off if defense attorneys could make their final case prior to the prosecutor's case.[34]

There are two points to notice here: anchoring is largely outside the individual's awareness, and expertise does not attenuate the bias. The individual expert starting a Georgia-Pacific analysis with the 25% Rule will likely remain biased and anchored, and even though an opposing expert may counter that opinion, the judge and jury will remain biased by the initial figure presented.

6. Conclusion

We believe that the 25% Rule has been correctly tossed onto the scrap-heap of junk science by the CAFC. While there have been numerous articles citing it, there are none that provide any sound empirical or theoretical basis for the rule. On the contrary, there are significant theoretical problems with the rule and attempts to justify it empirically fall flat. The normative arguments (that the 25% Rule is used by some licensing professionals) may be individually correct, but it does not raise the 25% Rule to the level of science or explain why the same patents licensed to multiple companies are generally licensed at the same royalty rates. ■

31. Goldscheider, Marshall, "The Art of Licensing From the Consultant's Point of View," 6 *les Nouvelles,* 166. (1971)

32. Tversky, Kahneman, "Judgment Under Uncertainty: Heuristics and Biases," *Science*, New Series, Vol. 185, No. 4157. (Sep. 27, 1974), at 1128.

33. For a very readable discussion of anchoring and other effects, see Ariely, "Predictably Irrational: The Hidden Forces That Shape Our Decisions," Harper Collins, 2008.

34. Englich, *Blind or Biased? Justitia's Susceptibility to Anchoring Effects in the Courtroom Based on Given Numerical Representations*, Law & Policy, Vol. 28, No. 4, October 2006.

Arbitration: A Quick And Effective Means For Patent Dispute Resolution

By Anne St. Martin and J. Derek Mason[1]

Entering into a contract containing a carefully crafted arbitration clause provides a level of predictability with respect to the investment and liability associated with patent license and/or research agreements, thereby providing the respective companies a better estimation of the risk factors associated therewith. Specifically, when parties enter into an agreement to arbitrate they have the opportunity to obtain assurance through the careful drafting of the arbitration clause that any dispute arising out of the contract will be decided by a technologically knowledgeable neutral arbitrator in a manner that will be relatively inexpensive. Having this assurance can provide stability of the business relationship which is further strengthened by the knowledge that the proceedings will be confidential and the awards rendered will be final and non-appealable, so that the companies can quickly resume with their business transactions without concern for negative publicity or the uncertainty of appeals. Accordingly, using arbitration as a means to quickly and effectively settle patent disputes, not only can be beneficial for both parties should a dispute arise, but can also provide pre-emptive benefits that remain even if the agreement to arbitrate is never enforced.[2]

I. Introduction

Arbitration is a process of dispute resolution wherein parties submit their dispute to at least one impartial "judge" who will render a binding decision. This process differs from mediation or conciliation, where the impartial authority is authorized only to facilitate the discussion of the parties in dispute, but will not render any decision on the matter.[3] In arbitration, the parties agree that by submitting themselves to arbitration, the decision rendered by the arbitrator will be binding and is "non-appealable" absent any defense of invalidity of the arbitration clause.[4] Although this sounds like a dangerous approach for patent disputes, which often last for several years from Markman hearings[5] through appeals, there are many positive aspects to this type of agreement that may prove worthwhile for both parties.

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Voluntary arbitration as a remedy for patent infringement is authorized by 35 U.S.C. § 294.[6] Specifically, section 294 authorizes either submission to arbitration by execution of a contract, comprising an "arbitration clause" whereby parties preemptively attest their intent to arbitrate, or by a written agreement to arbitrate, which may be executed independently of the contract either before or after the dispute arises.[7] Section 294 has also been extended to include interference claims[8] and questions of inventorship.[9]

As can be expected, it is uncommon for an agreement to arbitrate to be executed post-dispute, as it

1. The opinions expressed in this article are those of the authors and do not necessarily reflect that of Oblon Spivak. This article does not constitute legal advice to any particular person/entity and should not be treated as such by readers. Reliance on this article does not create an attorney client relationship with Oblon Spivak or any individual attorney thereof.

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3. *See* American Arbitration Association, *http://www.adr.org/sp.asp?id=28749* (last visited February 26, 2011).

4. While 9 U.S.C. § 16 provides for appeal of certain aspects relating to an arbitration proceeding, an arbitration award is appealable only under certain very specific situations, such as an award "procured by fraud, corruption, or undue means," or by acts of the arbitrators constituting partiality, corruption, misconduct, or "exceed[ing] their powers." 9 U.S.C. §§ 10, 16 (2006).

5. In *Markman v. Westview Instruments, Inc.*, the U.S. Supreme Court held that judges, not juries, would interpret the meaning of the words used in patent claims as their interpretation is a matter of law not a question of fact.517 U.S. 370 (1996).Although juries determine questions of fact, judges determine matters of law. *See* U.S. CONST. amend VII; *Chevron U.S.A. Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837 (1984). Markman Hearings are now held in many jurisdictions to construe patent claims prior to the start of trial.

6. 35 U.S.C. § 294 (2006).

7. *See Id*.§ 294 (a).

will inevitably become much more difficult for competing or disputing parties at that stage to reach a written agreement on the logistics of the arbitration. Accordingly, most arbitrations find their authority in arbitration clauses that are executed pre-dispute, which are often added to patent license agreements and research and development contracts.[10] As will be discussed below, there are many potential benefits associated with arbitration that may prove advantageous for both sides of a patent dispute. Likewise, there are concerns that both sides should take into consideration before entering into an arbitration agreement or otherwise submitting a patent dispute to arbitration. Overall, however, arbitration warrants serious consideration as an effective alternative means of patent dispute resolution when a properly drafted arbitration clause is used to preserve a party's best interests.

For example, the costs of arbitration, while not insignificant, are not nearly as high as the costs that parties may incur during years of patent litigation.[11] In addition, since the decision of the arbitrator is binding, the time for resolution of a patent dispute via arbitration can be as short as a matter of months. In contrast to litigation, which can involve multiple layers of appeal, following the issuance of an award in arbitration the parties may continue with their business activities with the assurance that the dispute is finally settled and will no longer affect or impede their business plans. Moreover, since the parties to the arbitration pick the arbitrators, they have a better opportunity to ensure that the decision maker is knowledgeable in both the field of patent law and the technology at issue, avoiding some of the uncertainty associated with Markman hearings and jury decisions on validity and infringement.[12] Finally, as arbitration is private, the parties do not need to be concerned that challenges to their business practices and/or the validity of their patents will be broadcast throughout the industry, to their clients, or to their competitors.

There are, however, some negative aspects to arbitration. For example, since discovery is limited by the discretion of the arbitrator, parties on either side may have difficulty making their case, as they may not have access to the huge sum of documents normally acquired during pre-trial procedures in litigation.[13] In addition, although section 294 states that the award granted "shall be final and binding between the parties to the arbitration,"[14] the courts have not yet determined whether any finding of invalidity of the patent shall be binding on the patent holder for future disputes or will hold any weight in future court or in United States Patent and Trademark Office ("USPTO") proceedings.[15]

This paper explores the general principals of patent arbitration under U.S. Law and weighs the benefits of using arbitration as a means of resolving patent disputes against the potential disadvantages that may be associated therewith but have yet to be decided by the courts. Specifically, Part II of this paper addresses the establishment of the Federal Arbitration Act and the general principles of arbitration. Part III addresses the specific application of arbitration to patent disputes. In Part IV, the authors discuss the pros and cons associated with arbitration of patent disputes, as compared to litigation, and Part V presents a framework for establishing agreements to arbitrate patent disputes.

II. Arbitration In The United States

The Federal Arbitration Act ("FAA")[16] was enacted to codify a "national policy favoring arbitration and [to place] arbitration agreements on equal footing with . . . contracts."[17] The FAA ensures that agreements to arbitrate are "valid, irrevocable, and enforceable," provided their subject involves "commerce."[18] An

8. *See* 35 U.S.C. § 135(d)(2006). An interference is an *inter partes* administrative proceeding held before the Board of Patent Appeals and Interferences ("BPAI") of the United States Patent Office ("USPTO") to determine the priority of multiple patent applications. This proceeding is a by-product of the first to invent system of the United States, and provides a party who was first to invent but not first to file the opportunity to challenge another party's claim to inventorship.

9. *See Miner Enters., Inc. v. Adidas AG,* No. 95 C 1872, 1995 WL 708570, at *3 (N.D. Ill. Nov. 30, 1995).

10. *See* Kevin R. Casey, *The Suitability of Arbitration for Intellectual Property Disputes*, 71 PAT. TRADEMARK & COPYRIGHT J. 143 (2005).

11. *See* Am. Intell. Prop. L. Ass'n, "2009 Report Of The Economic Survey," 29 (2009) [hereinafter Aipla Economic Report]; Richard D. Margiano,Cohen Pontani Lieberman &Pavane LLP, New York, *U.S.—Litigation: Cost and duration of patent litigation*, Managing Intellectual Property, (Feb. 1, 2009), available at *http://www.managingip.com/Article/2089405/Cost-and-duration-of-patent-litigation.html*; Commercial Arbitration Rules And Mediation Procedures (Am. Arbitration Ass'n amended 2010).

12. Donna Gitter, *Should the United States Designate Specialist Patent Trial Judges? An Empirical Analysis of H.R. 628 in Light of the English Experience and the Work of Professor Moore*, 10 *Colum. Sci. & Tech. L. Rev.* 169 (2009).

13. See Commercial Arbitration Rules And Mediation Procedures § R-30 *supra* note 9.

14. 35 U.S.C. § 294(c) (2006).

15. *See also* Federal Arbitration Act 9 U.S.C. §§ 1–14 (2006).

16. *Id.*

17. *Buckeye Check Cashing, Inc. v. Cardegna*, 546 U.S. 440, 443 (2006).

agreement to arbitrate under the FAA must be present, either as part of a written commercial contract or as a written agreement separate from the contract itself, stating that the parties will submit to arbitration for an existing controversy.[19] This "right" to contractually agree to arbitrate disputes extends to matters of both state and federal jurisdiction.[20]

A. Determining the Validity of an Agreement to Arbitrate

As is standard with arbitration agreements, any such clause or agreement is valid, irrevocable, and enforceable absent any ground that exists at law or in equity for revocation of a contract.[21] "Challenges to the validity of [an] arbitration agreement upon such grounds as exist at law or in equity for the revocation of a contract" can be divided into two types."[22] The first type challenges the validity of the arbitration clause itself.[23] The second type "challenges the validity of the contract as a whole."[24] Challenges to the validity of the contract as a whole may involve a challenge to the entire agreement; for example, a claim of fraud in the inducement, or a challenge to the illegality of a single provision that would thus render the entire contract invalid.[25]

B. Severability of Arbitration Agreements

As a matter of substantive federal law, an arbitration agreement is severable from the remainder of the contract.[26] In other words, the validity of the arbitration clause is to be determined independently of the validity of the contract with each type of challenge being decided separately.[27] This principal is internationally recognized as the "doctrine of separability."[28] If the challenge is to the validity of the arbitration agreement itself, for example a question pertaining to the formation of the agreement to arbitrate, the federal courts may adjudicate it.[29] However, the statutory language of the FAA does not permit federal courts to consider challenges to the validity of the contract as a whole, including, for example, fraud in the inducement.[30] The issue of a contract's validity is to be considered by the arbitrator in the first instance.[31] Accordingly, the FAA provides that if any issue that is subject to an arbitration clause is brought in a proceeding before any court of the United States, the court shall, upon application by one of the parties, stay the trial of the action until the arbitration has been conducted in accordance with the terms of the agreement.[32]

C. Competence-Competence?

There is a principal applied in International Commercial Arbitration recognized as "competence-competence," which stands for the notion that the arbitrators themselves are granted authority by the parties to determine the validity of the arbitration agreement.[33] However, this international principal has not been generally recognized by the United States federal and state courts in its strict sense.[34] Instead, the United States Supreme Court has relied on section 4 of the FAA for jurisdiction to review the validity of arbitration agreements.[35] Specifically, section 4 states:

A party aggrieved by the alleged failure, neglect,

18. 9 U.S.C. § 2 (2006).

19. *Id.*

20. *Southland Corp. v. Keating*, 465 U.S. 1, 15–16 (1984).

21. 9 U.S.C. §§ 1–14.

22. *Buckeye Check Cashing*, 546 U.S. at 444.

23. *Id.* (citing *Southland*, 465 U.S. at 4–5) (challenging the agreement to arbitrate as void under California law insofar as it purported to cover claims brought under the state Franchise Investment Law).

24. *Id.*

25. *Id.*at 445.

26. *Prima Paint Corp. v. Flood & Conklin Mfg. Co.*, 388 U.S. 395, 404 (1967).

27. 9 U.S.C. § 4 (2006); *Prima Paint*, 388 U.S. at 403–404.

28. Philipe Fouchard et al., Fouchard, Gaillard, Goldman on *Int'l Commercial Arbitration* 198 (Emmanuel Gaillard & John Savage eds., 1999).

29. *Prima Paint*, 388 U.S. at 403–404.

30. *Buckeye Check Cashing*, 546 U.S. at 446.

31. *Id.*

32. 9 U.S.C. § 3.

33. Uncitral Model law, Art. 23; *See* Philipe Fouchardet Al., *supra* note 26 at 399–400 (Although this notion is often expressed with the phrase *"Kompetenz-Kompetenz,"* the traditional meaning of *"Kompetenz-Kompetenz"* in German implies that the arbitrators are empowered to make a final ruling as to their jurisdiction, with no subsequent review of the decision by any court. This runs contrary to the intended meaning of the phrase in the international sphere, and has thus been rejected in Germany. Accordingly, *"Kompetenz-Kompetenz"* is slowly being phased out internationally and replaced with "competence-competence," a term adopted by the French Courts as early as 1949.); Klaus Peter Berger, *Germany Adopts the Uncitral Model Law*, 1 INT'L ARB. L. REV. 121, 122 (1998).

34. William W. Park, *The Arbitrability Dicta in First Options v. Kaplan: What Sort of Kompetenz-Kompetenz Has Crossed the Atlantic?*, 12 ARB. INT'L 137 (1996); Tom Carbonneau, *A Comment Upon Professor Park's Analysis Of The Dicta In First Options v. Kaplan*, 11 INT'L ARB. REP. 18 (Nov. 1996); Lawrence W. Newman and Charles M. Davidson, *Arbitrability of Timeliness Defenses—Who Decides?*, 14 J. INT'L ARB.137 (June 1997).

35. *Prima Paint*, 388 U.S. at 404; *Buckeye Check Cashing*, 546 U.S. at 445.

> or refusal of another to arbitrate under a written agreement for arbitration may petition any United States district court [with jurisdiction]…for an order directing that such arbitration proceed in a manner provided for in such agreement…upon *being satisfied that the making of the agreement for arbitration* or the failure to comply therewith *is not in issue*, the court shall make an order directing the parties to proceed the arbitration in accordance with the terms of the agreement. …[36]

In turn, the Supreme Court has held that if the challenge is to the "making" of the arbitration agreement itself, for example, inducement of the arbitration clause, then the federal court of proper jurisdiction may adjudicate the issue.[37] However, as noted above, the federal court may only consider issues relating to the making and performance of the agreement to arbitrate, not to the validity of the contract as a whole.[38] The Supreme Court has further recognized the international doctrine of separability by holding that whether the challenge is brought in federal or state court, a challenge to the validity of the contract as a whole, not to the arbitration clause itself, must be decided in the first instance by the arbitrator.[39] This holding applies even if the state law under which the challenge is made prohibits enforcement of an arbitration clause contained in a contract that is unenforceable under state law.[40]

D. Judicial Enforcement

Once the arbitrator renders a decision, the FAA further provides that courts "must" confirm the arbitration award unless it is vacated, modified, or corrected as described in sections 10 and 11.[41] These statutory grounds are exclusive and cannot be modified by contract.[42] These provisions substantiate "a national policy favoring arbitration with just the limited review needed to maintain arbitration's essential virtue of resolving disputes straightaway."[43] In addition, should one of the parties refuse to submit to the arbitration, any United States district court that would have jurisdiction over the matter, absent the agreement, may order the arbitration to proceed in the manner provided for in the agreement.[44]

III. Arbitration Of Patent Disputes

The Patent Act was amended in 1982 to recognize voluntary arbitration as a course of remedy for patent disputes relating to validity or infringement.[45] Specifically, section 294 now authorizes either submission to arbitration by execution of a contract comprising an "arbitration clause," whereby parties preemptively attest their intent to arbitrate, or by a written agreement to arbitrate, which may be executed independent of the contract either before or after the dispute arises.[46] This provision has also been extended by the courts to include interference claims[47] and questions of inventorship.[48]

The Patent Act specifies that "[a]rbitration of [patent] disputes, awards by arbitrators[,] and confirmation of awards shall be governed by title 9" of the FAA, discussed above, to the extent that it is not inconsistent with section 294 of the Patent Act.[4] Furthermore, section 294 provides that the arbitrator in a patent dispute must consider the patent defenses provided in section 282 "if raised by any party to the proceeding."[50] These enumerated defenses "involving the validity or infringement of a patent" include but are not limited to: non-infringement, absence of liability for infringement, unenforceability, and/or

36. 9 U.S.C. § 4 (emphasis added).

37. *Prima Paint*, 388 U.S. at 404; *Buckeye Check Cashing*, 546 U.S. at 445.

38. *Prima Paint*, 388 U.S. at 404; *Buckeye Check Cashing*, 546 U.S. at 445.

39. *Prima Paint*, 388 U.S. at 404; *Buckeye Check Cashing*, 546 U.S. at 445.

40. *Southland Corp. v. Keating*, 465 U.S. 1, 10–14 (1984).

41. *See id.*; 9 U.S.C. § 10, 11. Specifically, § 10 provides the following grounds for vacating an award: "(1) where the award was procured by corruption, fraud, or undue means; (2) where there was evident partiality or corruption in the arbitrators, …(3) where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced; or (4) where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made." Under § 11, the grounds for modifying or correcting an award include "(a)…evident material miscalculation of figures or an event material mistake in the description of any person, thing, or property referred to in the award, (b)… arbitrators have awarded upon a matter not submitted to them…, [or] (c) where the award is imperfect in matter of form not affecting the merits of the controversy."

42. Hall St. Assocs., *L.L.C. v. Mattel, Inc.*, 552 U.S. 576, 582 (2008).

43. *Id.* at 588.

44. 9 U.S.C. § 4.

45. *See* 35 U.S.C. § 294 (2006); Act of Aug. 27, 1982, Pub. L. No. 97-247, 96 Stat. 317, 322.

46. *See* 35 U.S.C.§ 294(a).

47. 35 U.S.C. § 135(d).

48. *See Miner Enters., Inc. v. Adidas AG*, No. 95 C 1872, 1995 WL 708570, at *3 (N.D. Ill. Nov. 30, 1995).

49. 35 U.S.C. § 294(b).

50. 35 U.S.C. § 282.

invalidity of the patent.[51]

A. Reporting Requirement

Any decision rendered by the arbitrator, referred to as an "award," must be reported to the Director of the USPTO.[52] There must be separate notice given for each patent involved in the proceeding, and each notice must "set forth the names and addresses of the parties" as well as the name of the inventor and the patent owner, must "designate the number of the patent, and [must] contain a copy of the award."[53] The award "shall be unenforceable until" the Director receives notice thereof.[54] Upon receipt of the notice, the Director is required to enter the notice in the patent's prosecution record.[55] Although there is no database of such notices maintained by the USPTO, the statute dictates that the "Director shall, upon receipt of either notice, enter the same in the *record of the prosecution of such patent*."[56] Accordingly, it would follow that any patent about which such a notice was issued would have a copy thereof listed in the Patent Application Information Retrieval database ("PAIR").[57] Although it is not clear if the notice would be placed in Public PAIR or Private PAIR, which is restricted in access, we note that it is unlikely that the notice is placed in Private PAIR because it does not involve an unpublished patent application or non-patent (copyrighted) literature.[58] Accordingly, section 294(d) appears to require the Director to enter the notice of an arbitration award in the public prosecution record of the patent, which undermines the confidential nature of arbitration proceedings.[59]

B. Effect of the Arbitration Award on Third Parties

Although section 294 states that the award granted shall be final and binding between the parties to the arbitration, the courts have not yet determined whether any finding of invalidity of the patent shall be binding on the patent holder for future disputes or shall hold any weight in future court or in United States Patent and Trademark Office (USPTO) proceedings.[60] Accordingly, the question remains whether the arbitration procedure itself, even if confidential, will have any effect on the patent validity.

Section 294(c) of the Patent Act specifically states that awards issued by the arbitrator shall be final and binding between the parties to the arbitration but shall have "*no force or effect*" on any other person.[61] In parallel, the Patent Act's interference arbitration sub-section, section 135(d), specifically states that the award rendered "shall, *as between the parties to the arbitration*, be dispositive of the issues to which it relates."[62] However, it has been held that an arbitral award in the United States has the same effect as a court judgment for purposes of res judicata with respect to those issues which were covered by the award.[63] Accordingly, even though both statutes

51. *Id.* The enumerated defenses specifically include: "(1) non[-]infringement, absence of liability for infringement[,] or unenforceability, (2) [i]nvalidity of the patent or any claim in suit on any ground specified in part II of [] title [35 U.S.C. §§ 100 et seq.] as a condition for patentability, (3) [i]nvalidity of the patent or any claim in suit for failure to comply with any requirement[s] of [35 U.S.C. §§ 112 or 251], (4) [a]ny other fact or act made a defense by title [35 U.S.C.]." *Id.*

52. *See* 35 U.S.C. § 294(d).

53. *Id.*

54. 37 C.F.R. § 1.335(c) (2010); filing of notice of arbitration awards.

55. *See* 35 U.S.C. § 294(e);37 C.F.R. § 1.335.

56. 35 U.S.C. § 294(d) (emphasis added).

57. Status information relating to patent applications is available through the Patent Application Information Retrieval ("PAIR") system. There is both a public and private side to PAIR. In public PAIR, information is available relating to issued patents, published patent applications, and applications to which a patented or published application claims domestic priority. In private PAIR, an applicant (or his or her registered patent attorney or registered patent agent) can securely track the progress of his or her application(s) through the USPTO. Private PAIR makes available information relating to unpublished patent applications, but the applicant must associate a Customer Number with the application to obtain access. *See* U.S. Pat. & Trademark Office, U.S. Dep't Of Commerce, Manual Of Patent Examining Procedure§ 1730(1)(c) (8th ed., 8th rev. 2010) [hereinafter MPEP].

58. *See Id.* Private PAIR is used: (1) to access non-patent (copyrighted) literature,§ 707.05(a), and (2) to provide information related to unpublished patent applications.

59. 35 U.S.C. § 294(d).

60. *Id. See also* 9 U.S.C. §§ 1–14 (2006).Matthew A. Smith, *Arbitration of Patent Infringement and Validity Issues Worldwide*,19 HARV. J. LAW & TECH. 299, 323 (2006).

61. 35 U.S.C. § 294(c) (emphasis added).

62. 35 U.S.C. § 135(d) (emphasis added).

63. *Am. Renaissance Lines, Inc. v. Saxis S.S. Co.*, 502 F.2d 674, 678 (2d Cir. 1974) (citing Springs Cotton Mills v. Buster Boy Suit Co., Inc., 88 N.Y.S.2d 295 (N.Y. App. Div. 1949). A decision by arbitrators is as binding and conclusive under the doctrine of res judicata and estoppel as the judgment of a court. *See Schuykill Fuel Corp. v. B. & C. Nieberg Realty Corp.*, 165 N.E. 456 (N.Y. 1929). The test is whether the issues in this action were (a) litigated or involved in the arbitration proceeding or (b) properly could and should have been litigated there. To the extent that the facts and law which are material or incidental to the issues in this action meet this test, the plaintiff is estopped by the arbitration award. The rationale for this rule is plain. Any other result would permit a different judgment in this action, the effect of which would be to 'destroy or impair, interests established by the first.

make it clear that the award will not have an effect on third parties, they do not appear to preclude the use of the award against the parties themselves in future proceedings.[64]

Specifically, if an arbitration award is issued that finds certain claims of a patent invalid, then the question of whether or not that finding of invalidity would be binding against the patent holder in later proceedings has not yet been decided. However, the language "but shall have no force or effect on any other person" might be interpreted to mean that the award shall have no force or effect on the patent owner's ability to enforce the patent in later proceedings.[65] Specifically, if the patentee is bound by an award of invalidity, then the award would technically have both force and effect on the rights of the third party to make, use, and/or sell the technology covered by that patent.[66] Thus, it could be argued that holding a patentee bound in future proceedings by an arbitration award of invalidity would be contrary to the statutory language of section 294, which prohibits force or effect of the award on third parties.[67]

In contrast, we also recognize that the U.S. federal courts and the U.S. patent system have tended to encourage challenges to the validity of patents to ensure that only the owners of truly valid patents have the right to continue excluding others from practicing the patented invention.[68] In turn, the record-keeping requirement described above combined with the patent system's encouragement of patent challenges may support a holding that any arbitration award which determines whether a disputed patent is either invalid or unenforceable shall also have an effect on parties that are not a party to the arbitration. Under such a holding, an arbitration award which finds a patent invalid would effectively serve to dedicate the patent to the public, and third parties would be able to rely upon the award in future proceedings.[69]

It is also worth noting that even if the award itself is not binding on the patent holder in future disputes, the question of whether the award, if not publicly available through the PAIR system of the USPTO, would be discoverable in future disputes has not been addressed. Specifically, it is possible that even if the statute were enforced and the arbitration award was determined to have no effect in future proceedings, a third party may still be able to access the reasons that the patent was determined invalid or unenforceable noted in the award and assert those same reasons in court.[70]

In view of the foregoing, it may be prudent to draft an arbitration clause limiting the format of the award and the issues to be decided in order to avoid any possible *res judicata* effect of validity rulings. For example, if the arbitration clause is drafted to limit the award to determination of royalty fees and/or findings of infringement only, then there will be no findings of invalidity or unenforceability on record to be relied upon in the future by third parties.[71]

C. Stay Requirement and Administrative Proceedings

Under the FAA, a suit or proceeding brought in any U.S. court "shall" be stayed once the court is satisfied that there is a valid arbitration agreement.[72] However, it is not clear that administrative agencies are also re-

64. 35 U.S.C. §§ 135(d), 294(c).

65. 35 U.S.C. § 294 (c).

66. *See* 35 U.S.C. § 154(a)(1)(defining the rights granted by issuance of a patent as "[e]very patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof"); *see* also 35 U.S.C. § 154(a)(1) for a description of what constitutes infringement; "[e]xcept as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefore, infringes the patent."

67. We point specifically to the word "shall" in "[a]n award by an arbitrator *shall* be final and binding between the parties to the arbitration but *shall* have *no force or effect* on any other person." 35 U.S.C. § 294(c) (emphasis added).

68. *See*, *e.g.*, Patent Reform Act of 2011, S. 23, 112th Cong. (2011) (adopting a post grant review proceeding wherein any person other than the patent owner could file a petition for review of patent validity within nine months from patent grant).

69. In such an instance, the third party may have a strong argument for sanctions against the patentee for patent misuse for attempting to enforce a knowingly invalid claim or knowingly unenforceable patent. *See* 35 U.S.C. § 271(d)(4); *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980). "Sham" or bad-faith patent enforcement—*i.e.*, without belief that the claim is meritorious—however, can give rise to liability. *See Prof'l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49 (1993).

70. An argument could even be made that the findings in the arbitration award should have more weight in court, since the arbitrators are usually more knowledgeable in the technology involved, as well as knowledgeable in patent law.

71. *See* 9 U.S.C. § 4. We note that if the award is limited to infringement, claim construction should be excluded from the award.

72.9 U.S.C. § 3.

quired to issue a stay under the same circumstances. In a 1991 Age Discrimination in Employment Act case, the Supreme Court held that agreements to arbitrate do not preclude administrative agencies from investigating and prosecuting civil statutory claims.[73] In 1991, the Court of Appeals for the Federal Circuit held that, in an International Trade Commission ("ITC") investigation, the Commission was not authorized to halt proceedings to defer to arbitration, even when there was a valid agreement to arbitrate.[74] The Court cited 19 U.S.C. § 1377 Unfair practices in Import Trade ("section 377"), which at the time only authorized limited and specific circumstances for termination of an ITC investigation.[75] However, to follow the national policy favoring arbitration and the FAA, in 1994 Congress amended section 377 to provide that on the basis of an agreement to arbitrate, the Commission may terminate the investigation, in whole or in part, without making a determination.[76] Accordingly, although the U.S. Supreme Court holding may be applied to justify the refusal to stay other administrative proceedings pending arbitration, it appears as though Congress' revision of section 377 in response to the Federal Circuit's decision in Farrel Corp. makes it clear that it is the intent of Congress to have both administrative agencies and courts honor parties' intent to arbitrate disputes.[77] This is further evidenced by the Patent Act's reference to the arbitrability of interferences: "Parties to a patent interference… may determine such contest or any aspect thereof by arbitration."[78] In turn, although the question of whether re-examination[79] would be stayed pending arbitration has not been addressed by the courts, it follows from the above rationale that such a stay would be granted, especially in view of the statutory right granted under section 294(a) to arbitrate "any dispute relating to patent validity."[80]

It should be noted, however, that although the administrative proceedings noted above may be stayed on the basis of an agreement to arbitrate, the respective agencies are not required to do so. Specifically, the language "may" in section 377 indicates that it is not mandatory for the Commission to honor the arbitration agreement.[81] In addition, section 135(d) of the Patent Act states that although the parties to an interference "may determine such contest or any aspect thereof by arbitration[,]… nothing in this subsection *shall* preclude the Director from determining patentability of the invention involved in the interference."[82] However, section 135(d) further notes that the award rendered "*shall*, as between the parties to the arbitration, be dispositive of the issues to which it relates."[83] Accordingly, it is possible that the statement in section 135(d) that the Director is not precluded from making his own determination is a reflection of the intent that the award rendered

73. *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 27 (1991). "An individual ADEA claimant subject to an arbitration agreement will still be free to file a charge with the EEOC, even though the claimant is not able to institute a private judicial action."

74. *Farrel Corp. v. United States ITC*, 949 F.2d 1147, 1155 (Fed. Cir. 1991).

75. *Id.*

76. 19 U.S.C. § 1337(c) ("The Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section, except that the Commission may, by issuing a consent order or on the basis of an agreement between the private parties to the investigation, including an agreement to present the matter for arbitration, terminate any such investigation, in whole or in part, without making such a determination."); see also *Farrel Corp.*, 949 F.2d at 1155 (holding that commission cannot halt investigation to defer to arbitration agreement).

77. 19 USC § 1337.

78. 35 U.S.C. § 135(d).An interference occurs:

> Whenever an application is made for a patent which, in the opinion of the Director, would interfere with any pending application, or with any unexpired patent, an interference may be declared and the Director shall give notice of such declaration to the applicants, or applicant and patentee, as the case may be. The Board of Patent Appeals and Interferences shall determine questions of priority of the inventions and may determine questions of patentability. Any final decision, if adverse to the claim of an applicant, shall constitute the final refusal by the Patent and Trademark Office of the claims involved, and the Director may issue a patent to the applicant who is adjudged the prior inventor. A final judgment adverse to a patentee from which no appeal or other review has been or can be taken or had shall constitute cancellation of the claims involved in the patent, and notice of such cancellation shall be endorsed on copies of the patent distributed after such cancellation by the Patent and Trademark Office. 35 U.S.C.§ 135(a).

79. 35 U.S.C. § 302.reexamination has been defined as:

> Patent reexamination is a procedure by which a post grant review of an issued U.S. Patent is performed by a team of three experienced primary examiners of the United States Patent & Trademark Office's Central Reexamination Unit ("CRU"). *Ex parte* patent reexamination may be initiated by the patent owner, the Director of the USPTO or a member of the public ("third party requester").
>
> Stephen G. Kunin *et al.*, *Patent Reexamination: Frequently Asked Questions*, Patents Post-Grant, *http://www.patentspostgrant.com/wp-content/uploads/2009/11/Reexam-FAQ-Updated-11_30_09.pdf* (last updated Nov. 30, 2009).

80. 35 U.S.C. § 294(a).

81. 19 USC § 1337(c).

82. 35 U.S.C. § 135(d) (emphasis added).

83. *Id.* (emphasis added).

should not have an effect on any third person or entity who was not a party to the arbitration.[84] This rationale would be in agreement with section 294(c) of the Patent Act, which specifically states that awards issued by the arbitrator "*shall* be final and binding between the parties to the arbitration but shall have *no force or effect* on any other person."[85]

IV. Pros And Cons Of Arbitrating Patent Disputes

There are many potential benefits associated with arbitration that may prove advantageous for both sides of a patent dispute including brevity, cost, technical knowledge of the arbitrators, and confidentiality of the proceedings.

A. Cost and Time

There is a significant difference in the costs associated with arbitration of patent disputes compared to litigation.[86] A number of factors contribute to the high cost of patent litigation. Although the pretrial procedures including discovery, expert witness testimony, and depositions often initially account for a large percentage of the costs, the costs associated with appeal can ultimately overshadow the pre-trial costs.[87] *The American Intellectual Property Law Association Economic Survey of 2009* reported that the median costs for Patent Infringement Litigation, wherein the amount at issue was from $1,000,000 to $25,000,000, was $2,500,000 inclusive, with $1,500,000 being the median costs for discovery alone.[88] Depending on the voracity with which the parties litigate, the costs can be significantly higher. An appeal to the Federal Circuit can add at least another $2,000,000 to the total costs.[89]

In contrast, the costs for arbitration are often well below $1,000,000.[90] Depending on the body selected by the parties to run the arbitration, the filing fee for a case where the amount at issue varies from $1,000,000 to $5,000,000 may be as little as $12,450.[91] Although the attorney fees will remain at their standard rates, the time required to prepare and submit a dispute to arbitration is much less than that required for litigation. Moreover, "pre-trial" procedures, which can cost on average $1,500,000 in litigation, are streamlined in arbitration; it is in the discretion of the arbitrator to allow the parties to conduct any depositions and/or other pre-trial discovery procedures.[92]

In parallel to this reduction in cost, the time required to resolve a dispute through arbitration is often much shorter than the time required to resolve the same dispute through litigation.[93] This is a result of the above-mentioned streamlined procedures, which limit not only the attorney's time and thus attorney fees, but also cap the vast expenses which are often incurred in the appellate process.[94]

B. Selection of Arbitrators

A primary advantage of arbitration is the ability of the parties to submit their disputes to an arbitrator who is knowledgeable in both the technical issues of the patent and the governing patent laws.[95] When drafting the arbitration clause while forming the agreement to arbitrate, the parties can preemptively reserve their right to select the arbitrator or specify their requirements for appointment.[96] Specifically, the parties may specify in the arbitration clause the number of arbitrators and the manner in which they should be selected; alternatively, they may indicate their intent by specifying laws to govern the arbitration procedure, thereby providing a framework for appointing an arbitrator.[97] In this manner, the parties can ensure that if a dispute arises, they will be able to select an arbitrator who is familiar with the most relevant issues of the case, thereby avoiding the uncertainty associated with Markman hearings, jury trials, and appeals thereof.

C. Confidentiality

In general, arbitrations involve private, confidential procedures. Although the FAA does not expressly address the issue of confidentiality, a number of the rules which are commonly elected to govern arbitration proceedings provide for the formation of a confidentiality agreement at the start of the proceed-

84. *Id.* This would further be supported by the language "as between the parties to the arbitration. . . .."

85. 35 U.S.C. § 294 (c) (emphasis added).

86. *See* Aipla Economic Report, *supra* note 9; Margiano, *supra* note 9; Commercial Arbitration Rules And Mediation Procedures, *supra* note 9.

87. Margiano, *supra* note 9.

88. *See Aipla Economic Report*, *supra* note 9.

89. Margiano, *supra* note 9.

90. *See Commercial Arbitration Rules And Mediation Procedures*, *supra* note 9.

91. *Id.*

92. 9 U.S.C. §§ 7, 10 (2006).

93. Kevin R. Casey, *The Suitability of Arbitration for Intellectual Property Disputes*, 71 Pat. Trademark & Copyright J. 143 (2005).

94. Margiano *supra* note 9.

95. *Id.*

96. For example, refer to R-11. *Commercial Arbitration Rules And Mediation Procedures* § R-11, *supra* note 9.

97. *Id.*

ing.[98] Once such an agreement is created, U.S. courts have not been hesitant to enforce them.[99] However, an important factor to note is that the arbitrator does not have the authority to enforce confidentiality clauses.[100] Accordingly, if the confidentiality agreement is breached, the parties would have to obtain a court order compelling non-disclosure.[101] However, in order to guarantee that the court will enforce the confidentiality agreement, the parties should include the confidentiality agreement in the arbitration clause itself.[102]

It should be further noted that even if there is a confidentiality agreement, section 294 of the Patent Act requires that notice of each award rendered in an arbitration proceeding be submitted to the Director of the USPTO along with a copy of the award.[103] Accordingly, it is difficult in patent arbitration proceedings to retain full confidentiality. Although the USPTO does not maintain a record of said awards, having the record of any such award in the file history of a patent might be very dangerous for a patentee if the award questions the validity of the patent. Accordingly, we note again the possibility of limiting in the arbitration clause the issues to be decided in the award to, for example, exclude validity.[104]

D. Discovery

Under the FAA, arbitrators are authorized to issue subpoenas for witness testimony and physical evidence.[105] The fees paid to the witnesses are the same as the fees to witnesses before the U.S. courts.[106] If any person summoned by an arbitrator refuses to obey such a summons, the arbitrator may petition the United States district court for the district in which the arbitrator sits to compel the attendance of the person.[108]

Accordingly, it is within the discretion of the arbitrator to determine how much and what kind of discovery may be afforded to the parties. If the parties wish to maintain the right to pursue a specific type of discovery, they may specify this intent in the arbitration agreement, which the arbitrator must honor.

V. A Framework For Establishing Agreements To Arbitrate Patent Disputes

Parties can easily establish their desire to submit a dispute to arbitration either by written agreement prior to a dispute arising or by written agreement after the dispute arises—the most common being the former.[109] The American Arbitration Association Rules of Commercial Arbitration set forth specific language by which parties can make known their intention to submit to arbitration. The following Standard Arbitration Clause, for example, can be included in any contract between parties to address this intent:

> Any controversy or claim arising out of or relating to this contract, or the breach thereof, including any dispute relating to patent validity or infringement, shall be settled by arbitration administered by the American Arbitration Association under its Supplementary Rules for the Resolution of Patent Disputes and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. (The award shall be rendered within _____months of the filing of the Demand.)[110]

This clause can be further supplemented with specific selection instructions for the number and qualification of arbitrators, confidentiality, discovery, and issues to be decided in the award, if desired.[111]

If the dispute has already arisen and the parties have not previously agreed to arbitration, the parties can memorialize their interest to submit to arbitra-

98. *See Supplementary Rules For The Resolution Of Patent Disputes* (Am. Arbitration Assn. amended 2010), available at *http://adr.org/sp.asp?id=27417*.

99. *DiRussia v. Dean Witter Reynolds, Inc.*,121 F.3d 818, 826–28 (2d Cir. 1997).

100. Tony Dutra, *Conferences/Alternative Dispute Resolution: 'Top 10' Alternative Dispute Resolution Mistakes Detailed for IP Litigators*, 76 *Pat. Trademark & Copyright J.* 344 (2008).

101. 9 U.S.C. § 4 (2006).This section provides that "[a] party aggrieved by the alleged failure, neglect, or refusal of another to arbitrate under a written agreement for arbitration may petition any United States district court which, save for such agreement, would have jurisdiction under Title 28 for an order directing that such arbitration proceed in the manner provided for in such agreement." *Id.*

102. *Id.* Including the confidentiality agreement in the arbitration clause will in turn ensure that it is included in the definition of "such agreement" of § 4.

103. *See supra* Part III(A).

104. *See supra* Part III(B).

105. 9 U.S.C. §§ 7, 10.

106. *Id.*

107. *Id.*

108. 9 U.S.C. § 4.

109. *See supra* Part I.

110. *Supplementary Rules For The Resolution Of Patent Disputes, supra* note 96.

111. 35 U.S.C. § 294(b) (2006) states in part: "…In any such arbitration proceeding, the defenses provided for under section 282 of this title shall be considered by the arbitrator if raised by any party to the proceeding." This implies that the parties can agree beforehand which issues can or cannot be raised by the parties, such as invalidity or unenforceability.

tion by signing an agreement including the following provision:

> We, the undersigned parties, hereby agree to submit to arbitration administered by the American Arbitration Association under its *Supplementary Rules for the Resolution of Patent Disputes* the following controversy: (cite briefly). We further agree that the above controversy be submitted to (one)(three) arbitrator(s) (and that the award shall be rendered within _____months of the Demand). We further agree that we will faithfully observe this agreement and the rules, that we will abide by and perform any award rendered by the arbitrator(s), and that a judgment of the court having jurisdiction may be entered on the award.[112]

If the parties so desire, these paragraphs can be further refined to specify a different governing body and rules. However, in that event, the parties should refer specifically to the rules set forth by those governing bodies for any additional or different language that may be necessary to bring the dispute under the auspices of that particular governing body.

While it is simple to express the intent of the parties to submit to arbitration, the ultimate decision of whether to submit patent disputes to arbitration or litigation must be taken with great care and deliberation. The ultimate decision is both a business and legal decision wherein the variety of factors noted above must be weighed.

Furthermore, the arbitration clause must be very carefully drafted to ensure the best interests of the parties are maintained. For example, as explored in the sections above, if the parties desire to maintain confidentiality of the proceedings, to reserve a specific form of discovery, and/or to limit the issues to be decided in the award, such as royalty payments with no mention of validity findings in order to avoid possible estoppel effects, they may preserve their rights to do so through a carefully drafted arbitration clause.

VI. Conclusion

Entering into a properly crafted agreement to arbitrate provides the parties to a license agreement or other contractual business relationship the assurance that any dispute arising out of the contract will be decided by a technologically knowledgeable neutral arbitrator (or panel of arbitrators) in a manner that will be relatively inexpensive, confidential, and final. Having this assurance can provide a level of predictability with respect to the investment and liability associated with patent license agreements, thereby providing the respective companies a better estimation of the risk factors associated therewith. Moreover, entering into such an agreement with the knowledge that a dispute arising therefrom will be settled in accordance with a set of rules pre-selected by both parties serves to help ensure the stability of the business relationship. The stability is further strengthened by the knowledge that the proceedings will be confidential and the awards rendered will be final and non-appealable so that the companies can quickly resume with their business transactions without concern for negative publicity or the uncertainty of appeals. This is particularly important in instances where the parties are already (or are expecting to become) long-term business allies because it helps avoid the "take no prisoners" (*i.e.* defeat the other side at any cost) mentality that often occurs in patent litigation and can permanently damage the business relationship. Further, this stability and the corresponding assurance that litigation will be avoided can often prompt the parties to settle the disputes through negotiation, sometimes without even filing an arbitration demand. Accordingly, using arbitration as a means to quickly and effectively settle patent disputes can be beneficial for both parties should a dispute arise, and can also provide pre-emptive benefits which remain even if the agreement to arbitrate is never enforced. ■

112. *Supplementary Rules For The Resolution Of Patent Disputes*, *supra* note 96.

Replacing The 25 Percent Rule With Fact-Based Evidence—A Guide To Finding And Analyzing Royalty Rates

By David Jarczyk

Until recently, common practice and legal precedent had established the 25 percent rule of thumb (the "25 Percent Rule") as an acceptable approach to approximating reasonable royalty rates that licensees would be willing to pay to licensors, based on profit, as part of a hypothetical arms-length negotiation.

On January 4, 2011, the United States Court of Appeals for the Federal Circuit changed that practice irrevocably when it deemed the 25 Percent Rule inadmissible during the *Uniloc USA V. Microsoft* patent infringement case (the "Uniloc Ruling").

In the Uniloc Ruling, the Court pronounced the 25 Percent Rule a fundamentally flawed tool for determining a baseline royalty rate, and concluded that evidence supported by the 25 Percent Rule was inadmissible in the case because it does not tie a reasonable royalty base with the factual profile of the case at issue.

The Uniloc Ruling sets a new precedent that more stringent analysis and documentation will be required to develop a position that can withstand this new level of scrutiny. This decision also has global implications as it is likely to be considered in similar matters under the jurisdiction of country regulators (tax authorities) and global organizations such as the OECD.[1]

Using Fact-Based Evidence as an Alternative

In the wake of the Uniloc Ruling, it is clear that analysts will need to be as thorough as possible in performing due diligence to support their estimation of a reasonable royalty rate.

Toward that end, a more defensible approach for determining reasonable royalty rates for infringement damages, for intercompany licensing, and for the transfer of intangibles may involve the examination of third-party license agreements that are sufficiently similar to the subject situation or tested transaction.

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Third-party licensing agreements may provide the most defensible source of fact-based evidence for several reasons. First, there is a substantial, publicly-available repository of representative license agreements in the U.S. SEC, Canada SEDAR and other open information sources due to government regulations calling for public companies to file these material contracts. Second, an adequate percentage of these publicly-available license agreements offer un-redacted royalty rate information along with other licensing terms that are key factors of comparability such as licensing parties, product descriptions, territories and exclusivity. Third, the licensing terms within these license agreements can offer arms-length comparable transactions, which can present an unbiased model from which to determine a reasonable baseline royalty rate or set of royalty rates.

Finding Fact-Based Evidence

When seeking fact-based evidence as the basis for estimating a reasonable royalty rate, defining your search methodology based on the functional profile of the tested transaction is a key factor in performing due diligence.

Defining Criteria

A prudent first step in defining the criteria of the search methodology begins with the identification of all intangibles related to the subject situation or tested transaction. Types of intangibles include:

- Manufacturing intangibles such as patents, inventions, formulations, recipes, processes,

1. The author would like to direct readers to an article by Robert Goldscheider (*les Nouvelles*, September 2011) which provides additional insight between the "25% Rule" and the "Classic 25% Rule." When referring to the "25% Rule," which has been relied upon often times in litigation cases and intellectual property negotiations, Mr. Goldscheider correctly argues that "this wooden and inflexible methodology... should thus, rightly, be inadmissible under Rule 702." Mr. Goldscheider then argues that intellectual property negotiations and expert work in litigation involving IP requires "considerable skills, in addition to general knowledge about the markets, technologies, and business involved." Furthermore, Mr. Goldscheider points to the need for "skilled and detailed analysis" and cites the use of public royalty rates under the market approach as well as the income approach (a.k.a. the relief-from-royalty method). The author suggests reading this article for additional perspective.

technical information, designs, patterns, or know-how;
- Marketing intangibles such as trademarks, trade names, trade dress, brand names, or service marks;
- Copyrights and literary, musical, or artistic compositions;
- Franchises (or business systems);
- Methods, programs, systems, procedures, campaigns, surveys, studies, forecasts, estimates, customer lists, or training materials;
- Software or source code; and
- Intangible generating services: research and development, engineering, or marketing.

After the appropriate intangibles have been identified and inventoried as the basis for matching comparable transactions, a pivotal next step is to identify what key factors of the subject situation or tested transaction affect comparability and, therefore, the final results. U.S. Treasury regulations §1.482-(c)(iii) offers a useful description of the various factors that impact comparability, which are defined as:

- Being used in connection with similar products or processes within the same general industry/market;
- Have similar profit potential (this is difficult to quantify);
- Terms of transfer;
- Stage of development;
- Rights to receive updates, revisions, modifications;
- Uniqueness of the property;
- Duration of the license/contract/agreement;
- Risks assumed by the transferee (i.e. economic and/or product liability);
- Existence/extent of any collateral transactions; and
- Functions and/or services to be performed by each party.

These factors of comparability are generally accepted by global analysts, although perhaps not in this exact form. Having a referenceable list of comparability factors developed beforehand is a useful method for ensuring a consistent critique of each license agreement.

Sourcing Intangibles License Agreements

Fact-based evidence in the form of license agreements exists for each type of intangible. However, finding a defensible set of comparable transactions from license agreements can be an arduous process depending on the resource used.

There are a variety of sources for this information, but generally they can be classified into three main categories: government information databases (free), multi-purpose information databases (subscription-based), and royalty rate databases (subscription-based).

Government databases are often the most challenging resource for locating comparables, as these vast repositories were designed to accommodate a diverse audience seeking information for a wide range of purposes. In the U.S. SEC EDGAR database, for example, the available information is indexed very broadly and the key attributes that could help an analyst find comparable transactions in license agreements are not easily searchable. Further, license agreements in EDGAR are not necessarily filed in one intuitive location, such as exhibit 10 material contracts (as many analysts believe), which increases the risk of missing a pivotal comparable. Not surprisingly, many analysts consider government databases more time-consuming and less reliable than other sources of market comparable data.

Multi-purpose information databases offer another resource for locating comparable license agreements but, in general, are similar to government databases in terms of the broad organization of their data. While most multi-purpose databases will have more sophisticated search tools, both the manner in which the documents are indexed and the way the results are presented may not provide a clear and comprehensive fact pattern necessary for conducting a thorough comparables analysis.

Specialized royalty rate data providers offer another alternative information source and their tools and outputs tend to be aligned with the analyst's specific needs when performing a license agreement search. Royalty rate data providers aggregate intangibles information and organize key terms into searchable attributes that can significantly streamline the search process. In addition to offering more sophisticated search filters, most royalty rate data providers will offer a summary of licensing terms and comparable criteria needed for each transaction matched within the defined search methodology. An example summary is shown in Exhibit 1, which was provided by the ktMINE Royalty Rate Finder.

While summaries offered by royalty rate providers can offer a helpful snapshot of the license agreement, it is important to note that reading the full agreement text is still a critical step in performing due diligence.

In fact, reviewing all licensing terms contained in a license agreement document is the only way to validate that those terms fully support the factual profile of the subject situation or tested transaction. Reading the full text will also provide assurance that the document itself is usable, as some databases occasionally provide royalty rates from trade journals, financial newspapers or magazine articles gathered from unusable sources. Royalty rate comparables from unsubstantiated sources, such as newswire listings, cannot be used in court or with tax authorities unless backed up by a full text, corroborating license agreement.

Analyzing Fact-Based Evidence

Once the search methodology has been employed and a set of potential comparables has been found, the next steps in a prudent license agreement analysis are:

- Perform an initial review of identified license agreements *(i.e.*, review agreement summaries);
- Perform a detailed review of appropriate agreements (*i.e.*, review actual license agreements);
- Select comparable license agreements and, therefore, royalty rates; and
- Construct an arm's length range.

Validating Comparability

As an analyst reviews potential comparable license agreements, a thorough and savvy examination of all licensing terms is critical. Exhibit 1 provides an example of a license agreement that has been summarized to show key licensing terms that can affect the comparability of one transaction to another.

In Exhibit 1, the **Synopsis** details the rights being granted and for what type of intangible(s). In this case, the license agreement applies to a patented technology as well as trademarks, trade names, logos and the goodwill associated with each. All are key factors of comparability, as a patent and trademark license agreement would not be an appropriate comparable to use in benchmarking a patent-only transaction unless an analyst could precisely allocate a certain percentage of the royalty to each type of intangible.

In the next area, parties to the license agreement are captured—**Filing Company, Licensor(s) and Licensee(s)**. This information is useful in ensuring that a transaction satisfies the criteria of being a third-party transaction, as opposed to a transaction between related parties, which will contain an unbiased market royalty rate(s).

The **Effective Date** is a key comparability factor, as it shows this transaction to be contemporaneous with market conditions of 2010, which may be quite different from those of previous years depending on the industry, type of IP, and other relevant factors. Transactions taking place around the same time as

Exhibit 1: License Agreement Summary Example from ktMINE's Royalty Rate Finder Database

Agreement 16 of 44

Synopsis

- Grant the right to use the Licensed Rights (a. Patent Application Serial No. 61/245,141; b. Patent Application Serial No. 11/854, 305; c. Any and all improvements developed by Licensor, whether patentable or not, relating to the Licensed Rights, which Licensor may now or may hereafter develop, own or control; d. Any or all patents, which may issue on patent rights and improvements thereof, developed by Licensor and any and all divisions, continuations, continuations-in-part, reissues and extensions of such patents; and e. All rights in and related to (whether held, owned or in the possession of Licensor now or in the future) the LogiBoxx trademark and trade name including all future U.S. trademark registrations related thereto, all logos related thereto and the goodwill appurtenant to each) within the Territory in the course of Licensee's business during the term and according to the terms and conditions of this Agreement.

Actions

View Agreement
Comment on this Agreement
View Royalty Rate Text
Add to Set...

In Sets

Not in any saved sets

Agreement ID:	28454
Filing Company:	EAST COAST DIVERSIFIED CORP
Licensor(s):	BBGN&A LLC
Licensee(s):	EAST COAST DIVERSIFIED CORPORATION
Effective Date:	09/17/2010
Term:	This Agreement shall terminate and be of no further force or effect on September 17, 2015 (hereinafter "Initial Term"), unless renewed pursuant to this Agreement. Following the Initial Term, this Agreement shall automatically renew for additional five (5) year terms (each, a "Renewal Term") unless both Parties agree in writing to non-renewal no fewer than three (3) months prior to the end of the Initial Term or the applicable Renewal Term.
Type:	MANUFACTURING/PROCESS INTANGIBLE, MARKETING INTANGIBLE
Industry:	BROADCAST AND CABLE, BUSINESS SERVICES, COMPUTERS: HARDWARE AND SOFTWARE, INTERNET, PUBLIC SAFETY, TELECOMMUNICATIONS
SIC Code:	9995
Territory:	UNITED STATES OF AMERICA
Exclusivity:	MULTI-EXCLUSIVITY

Royalty Rates

View Royalty Rate Text | Statistics Only | Actuals Only | Statistics and Actuals

License Actuals	Value	Agreement Base	Modifier	Common Base
	8%	GROSS SALES	For each calendar quarter, no later than the fifteenth (15th) day following the end of the immediately preceding calendar quarter, unless such fifteenth (15th) day is not a Business Day, in which case on the immediately following Business Day, Licensee shall pay to Licensor (or its designee), in immediately available funds, a fee equal to eight percent (8%) of the Gross Sales for such immediately preceding calendar quarter.	GROSS SALES

the subject situation generally are more comparable than those that are older. Market conditions regularly change and a solid comparability analysis takes this into account.

The **Term** field defines the length of the license agreement and provides necessary insight for an analyst trying to identify comparable agreements that are not expired or do not have significantly different term than the subject situation.

The **Agreement Type** field lists all applicable category(s) from which intangibles are being licensed in this license agreement. While the Agreement Type field provides good shorthand on the nature of the intangibles being licensed, it is wise to read the full text of the license agreement to see if there are any other conditions that could affect the comparability of this transaction. For example, if an analyst was looking to benchmark a royalty rate for a patent-only transaction and a comparable included licensing terms for both patent and know-how intangibles, this may call for an adjustment with respect to any utilized royalty rates. This is also an instance where the full license agreement would provide critical context and support for the adjusted calculation.

The **Industry** and **SIC** (Standardized Industrial Classification) fields may appear to go hand in hand here, but they are actually quite different in terms of reliability and results.

The SIC code represents what was filed with the government database at the time of submission, if one was actually provided. If SIC is used as a search criteria and a means for rejecting transactions, the analyst should take note of the potential risks. First, filing companies do not always supply an SIC code when submitting their documentation. Second, the filing company SIC code may have no correlation whatsoever to the intangibles being licensed or the industry in which the licensee can exploit the intangibles, which means an analyst could overlook a pivotal comparable that was filed under a misrepresentative SIC code.

Case in point, in Exhibit 1, the summary shows an SIC code of 9995, which is the code for Non-Operating Establishments. Yet the intangibles being licensed in this agreement are more closely related to the Broadcast and Cable, Business Services, Computers: Hardware and Software, Internet, Public Safety, and Telecommunications industries. If an analyst were seeking intangibles related to the latter industries but only relied on an SIC search, this potential comparable might be missed.

Alternatively, a more reliable criterion to use (if available) when seeking intangibles from a particular vertical market may be Industry. In Exhibit 1, the Industry(s) field documents all applicable industries directly related to the intangibles being licensed therein and the industries in which the licensee has the right to exploit the intangibles. Searching by Industry typically allows an analyst to more precisely, and more comprehensively, identify potential comparable transactions directly related to a particular vertical.

Territory and Exclusivity are both good indicators of the potential market impact from the agreement based on licensing reach, but territory is often one of the first factors dismissed in a litigation situation as being of lessor importance than other comparability criteria. This happens primarily in cases where there is a lack in the number of total license agreements for that geography. For instance, it is nearly impossible to find specific license agreements that exploit an intangible solely in Ireland, so it may be more likely to find a comparable agreement with coverage in Europe or the world than one from specific geographies.

Royalty Rates are key factors of comparability and the detailed summary in Exhibit 1 offers full breakdown of all rates within the license agreement, including tiers. In instances where a license agreement has tiered or multiple royalty rates—which can be for a single intangible, and/or across a group of intangibles—a thorough analysis of how each rate impacts the overall value is critical in approximating a reasonable royalty rate. Once again, reading the full license agreement is a vital step toward ensuring that comprehensive due diligence has been performed as it is the only way one can see, and address, all collateral transactions such as lump sums, milestone payments, *etc.*, that may impact the results of an analysis.

While there is no guidance to the appropriate number of comparables to choose—comparability could be determined by just one transaction—it is prudent to analyze any and all possibilities and to allow statistical calculations, such data documenting an interquartile range, to assist in identifying a comparable range.

Summary

Finding and analyzing fact-based evidence may provide the most defensible method for approximating reasonable royalty rates in the wake of the Uniloc Ruling. There is a substantial repository of fact-based evidence available in the form of third-party license agreement data and documentation, and specialized royalty rate data providers can provide analysts with an efficient and reliable portal to finding representative transactions. As a result, when comparable transactions are identified and analyzed with a thorough methodology and comprehensive search process, fact-based evidence can support the resulting analysis with proof of thorough due diligence that can stand up in litigation matters. ■

The Three Classes Of Patent Usage

By Kelce S. Wilson and Claudia Tapia Garcia

There are two commonly-touted purposes of patents, to promote innovation and to protect inventions, and two commonly-used mechanisms, licensing and litigation. It is well known that the two mechanisms themselves are intertwined: refusal to license may lead to litigation, and litigation may result in an eventual license. What is often overlooked, however, is the absence of a framework that enables linking the mechanisms with the actual purposes. To help formulate a conceptual bridge across the void, various classes of patent usage are defined and compared.

Regarding licensing (including refusal to license), there are three classes of patent usage: (1) product differentiation, (2) income, and (3) cost avoidance. Coincidentally, there are also three levels of litigation quality: (1) business necessity, (2) managed risk, and (3) nuisance. There is some degree of relationship between the three classes of patent usage in licensing and the three levels of litigation, although perhaps the most interesting concept introduced here is the variation in the classes of patent usage. It turns out that most variations in the classes of litigation are primarily limited to a single one of the patent usage classes: income.

Patent Usage

The three classes of patent usage will be defined first, followed by an explanation of variations in litigation. The patent owner's licensing strategy will determine which of the usage classes are implemented. Convenient quick-reference comparison charts are provided after the litigation section to assist with summarizing the concepts.

Product Differentiation

Product differentiation is actually a refusal to license and, if litigation does occur, the pursuit of a permanent injunction rather than an ongoing license. Product differentiation uses a patent to create a scarcity by leveraging the right to a monopoly, so that the patent owner can rely on excess market demand to enable a price premium or provide some measure of security for expanding manufacturing capacity. As used here, a service provider is synonymous with a manufacturer.

As can be understood later, product differentiation is the only one of the three usage classes that actually implements a patent's granted right to a monopoly. Both of the other usage classes trade away the benefits of exclusivity for more direct financial gain, whether for simple income or else to defray expenses (*i.e.*, cost avoidance). Because product differentiation exists only in the context of having a product to sell or a service to offer, it can only be practiced by a manufacturer. By definition, non-practicing entities (NPEs) have no capacity to use patents for product differentiation.

Determining whether a patent is being used successfully for product differentiation is actually not accomplished by the patent attorneys alone, but instead requires input from a manufacturer's marketing experts. This is because a monopoly provides a notably advantageous condition: Market demand exceeds supplier capacity, and there is no looming influx of capacity to fully satisfy the demand. This enables the supplier to charge a price premium, which is a condition that is determined by the marketers. It is the marketers who are the experts at determining what pricing level the market will bear. But after initially determining that the product can enjoy a price premium over competing products, the marketers must then ascertain to what extent the price premium is due to a set of exclusive features. At that point, the lawyers can become involved to map those specifically identified features to the claims of a particular unlicensed patent. This is likely to be the only reliable way to ascertain the value of the product differentiation for an unlicensed and uninfringed patent, and distinguish from a patent that merely claims a useless idea in which no one else has any real interest.

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In technology fields that are governed by compatibility standards, product differentiation may not be an available option, because the standards setting organizations (SSOs) may require that any companies that contribute ideas to the industry standards must commit to license any related patent under terms that are fair, reasonable and non-discriminatory. See page 7 of [i]. In the U.S., this is called a RAND commitment, although the term FRAND is more commonly

used in Europe. FRAND or RAND commitments may preclude a refusal to license the patent to any entity willing to pay the FRAND or RAND royalty. [ii].

The mere act of refusing to license a patent does not necessarily constitute product differentiation. For example, pursuit of an injunction may merely be a negotiation tactic, to leverage the threat of business operation interruption for a higher settlement amount. An injunction can create distressing circumstances for the manufacturer by creating problems far outside the scope of the patent itself, especially in a complex product that incorporates multiple different technologies that are unrelated to the patent, so that the manufacturer can be motivated to pay more in royalties than the true value of the technology.

However, product differentiation can actually occur along with patent licensing, even including the licensing of multiple parties. In *ex ante* licensing, as opposed to *ex post* assertions, the patent owner might offer licenses to a set of manufacturers that have been selected because their cumulative capacity cannot fully meet market demand. As a consequence of the intentional scarcity, all of the manufacturers are able to obtain a price premium that is directly attributable to the patent license. The manufacturers are then using the patent for product differentiation, even as the patent owner is simultaneously using the patent to obtain income. See chapters 2 and 3 of [iii] for a description of the difference between *ex ante* licensing and *ex post* assertions.

Income

Any patent owner, whether manufacturer or NPE, can license a patent for income in the form of a lump sum or per-unit royalties. Apart from an award of past damages, perhaps in a litigation that produced an injunction against future infringement, patent income generally requires that the patent owner grant an ongoing outbound license. This license, however, damages the possibility of successful product differentiation usage for the licensor, at least with regards to the invention that is claimed in the licensed patent.

It is possible for a manufacturer to use patents in multiple usage classes simultaneously. For example, some patents may be licensed for income, whereas other patents are withheld from licensing in order to maintain differentiation for "the unique look and feel" of a product. In some industries, it may be common to license patents relating to those aspects of a product that are transparent to users (such as internal operations and compatibility with different systems), while refusing to license patents that can be clearly linked with consumer preferences (such as design and specialized functionality).

Thus, the product differentiation and income usage classes can be practiced simultaneously—at least by a manufacturer that owns more than one patent. Note though, that patent usage for income is more common in some industries than others. In the pharmaceutical industry, for example, maintaining a monopoly is more common. Compare [iv], discussing widespread licensing in the telecommunications industry, with [v], which states that "Market exclusivity afforded in terms of IP and/or Regulatory is paramount [sic] in the business equation of the drug-discovery industry."

As a conceptual model, to explain the difference in licensing practices, the pharmaceutical industry may be termed a "single patent product" industry, because the claims of only a small number of patents will read on a typical marketable product. Computer and telecommunications may be contrasted as "thousand patent product" industries, because the claims of hundreds or even thousands of patents will read on a typical marketable product—though some rather tenuously. See page 59 of [vi], mentioning cross licenses in industries "that are characterized by large numbers of overlapping patent rights" and page 1 of [i], stating "It is now commonplace for products in information technology industries such as consumer electronics, mobile phones, and computers to use technology from hundreds, even thousands, of patents. In "thousand patent product" industries, it may be entirely impractical for any manufacturer to attempt selling a product that does not infringe any patents, because it will be so devoid of user-desired features.

Ironically, although a patent ostensibly grants a right to a monopoly, for two of the three patent usage classes, the patent owner specifically does not desire a monopoly. That is, if the patent owner seeks to license the patent for income, or use it for cost avoidance as will be described next, but yet the patent owner is the only party that will practice the patent, then the patent has significantly reduced value. Interestingly, this is the exact opposite condition for desirability of exclusivity as when a patent is used for product differentiation.

When licensing a patent for income, the patent owner will normally desire that others will practice it, to expand the number of units used to calculate the royalties. An injunction will harm the income stream and work exactly against the income usage of the patent, although threatening an injunction against a manufacturer can leverage the prospect of a devastating interruption to business operations. By exploiting

distressing circumstances, after a manufacturer has sunk considerable investment in an allegedly infringing design, the patent owner can obtain a higher royalty rate than would be available through *ex ante* negotiations, in which the manufacturer could opt for a design-around solution that precluded the need for a license. This tactic can produce more income for the patent owner in the long term, than merely basing the negotiated royalty rate on the value of the technology itself.

In "thousand patent product" industries, NPEs often lack the necessary intellectual property rights (IPR) to build a marketable product that incorporates the inventions in the NPE's own patent. That is, if a typical NPE in the telecommunications or computer industry attempted to manufacture a product that had any reasonable likelihood of sales, the NPE itself would likely infringe a myriad of patents owned by the very same companies that the NPE had sued or threatened to sue. Oddly, in many such assertions, because the patent owner lacks the cross license rights of typical manufacturers, the patent owner therefore has even less of a right to build a marketable version of the invention than do the manufacturers that are being sued. It is a curiosity that NPEs use rhetoric about "protecting" inventions that the NPEs cannot even make or use or sell.

Cost Avoidance

Cost avoidance is a variation of the income usage class, applied to a cross-licensing arrangement. Here, the value of the outbound patent license to some party is used to partially offset the expense of an inbound patent license from that same party. In cross-licensing arrangements, the side having a deficit in IPR, relative to its exposure to the other side's IPR, may have to pay money along with granting a license. Decreasing the relative IPR deficit could reduce the payment. A patent that assists with mitigating outbound licensing payments is being used to avoid some costs. As used here, cost avoidance includes entering cross licenses to obtain a "freedom to operate" as indicated on page 60 of [vi].

As an alternative, some manufacturers may opt for an informal "patent peace" to obtain the necessary freedom. This is a situation in which two competitors lack an explicit cross license, but each expects to be left alone, in exchange for not suing the other. Such a situation is unlikely to occur, however, unless both manufacturers have sufficient patent portfolios to threaten the other one with expensive lawsuits. With patent peace and freedom to operate, the manufacturers can turn their attention to improving their products, as opposed to litigating. Both practices of explicit cross licensing and informal patent peace clear away the potential of one manufacturer encountering a blocking position by another. See [vii], for a discussion of use of patents for blocking positions.

There is some commonality among the cost avoidance and income usage classes. For example, the right to a monopoly is traded away for more direct financial gain, with profitability increasing along with increased use by others. So the same irony is shared: The "right" to exclusive use is intentionally unexercised, because exclusive use is undesirable when it means that no one provides any value to the owner in exchange for practicing the patent. Another similarity is that a manufacturer can use a select set of patents for cost avoidance along with using another set of patents for product differentiation.

Fortuitously, a single patent can be used for cost avoidance with one party, and income with a second party. It is only the product differentiation usage that must be used alone with a specific patent. In general, a manufacturer that has a sufficient number of patents may practice all three usages simultaneously.

However, there are some differences between cost avoidance and income. Because it is applicable in the context of cross-licensing, which is currently a practice that is limited to manufacturers, cost avoidance is a usage class that is only available to manufacturers. This is different than income, and is similar to the product differentiation usage class. It is an optional nomenclature issue (that is not settled here), whether to define cost avoidance so that it applies to both sides of a cross-license or else only to the junior side, so that the dominant side instead practices income.

There is another feature for which cost avoidance is similar to product differentiation, and differs from income usage. Typically, only one of the three litigation levels, which will be described shortly, will be available in the context of product differentiation and cost avoidance. This single class of litigation is identified as business necessity.

Litigation Quality Levels

Litigation results from the failure of licensing efforts by at least one of the parties. The licensing goal could be either (a) a refusal to license, and the failure is that infringement by a competitor prevents realization of product differentiation, or (b) direct financial gain, and the failure is that an alleged infringer refuses to provide the desired level of income or cost avoidance value. Litigation is the mechanism by which a patent owner can purportedly attempt to restore the licensing goal, through either an injunction that

permits resumption of product differentiation or else damages that provide the missing financial value. Not all litigation, however, results from a good faith effort to enforce IPR, but instead some may be an abusive attempt to obtain income beyond the value of the patent. See the Federal Circuit Court's description of one plaintiff's litigation strategy in [viii]. Additionally, as mentioned previously, certain rights, such as the right to refuse to license and instead seek an injunction, may be precluded by a FRAND or RAND commitment to an SSO.

The three levels of litigation correspond to differing minimum levels of assertion "quality" that are needed by the patent owner in the various patent usage scenarios. The levels of assertion quality do not entirely track the levels of patent quality that are identified in the authors' previous work in [ix], although there is some correlation: Only the top quality "business builder" patents are sufficient for enduring litigation at the business necessity level. Managed risk litigation is unlikely to receive any third-party funding with only "souvenir" patents, although nuisance assertions can often use even low quality patents.

Business Necessity

The top quality level for a patent assertion is labeled business necessity by the authors, and it can occur in all three identified classes of patent usage. A readily-recognizable example, that provides dramatic imagery of a "David and Goliath" battle, is a small company enforcing its "founding idea" patent against a blatant copier. More mundane, although likely far more common at this level, is litigation among large competitors that can determine the viability of a particular product line or even the existence of one of the companies.

For product differentiation enforcement, the litigation can be one-way, although it is possible that the defendant will counter-sue if the plaintiff has manufacturing exposure. Income-driven litigation can also be one-way or involve a countersuit. Cost avoidance litigation will typically be two-way, between competitors. Different parties in a single litigation may have different purposes.

Product differentiation is more likely to occur in industries for which cross licensing is not common, or else will involve "look and feel" patents that would likely be withheld from licensing, even for companies that regularly enter cross licenses. The key differentiator between litigating for product differentiation and litigating for income is not whether a litigant seeks an injunction. The threat of an injunction can create a risk of expensive business disruptions, thereby increasing the value of settlement for one side, and so an injunction might be sought for purely income-driven lawsuits. Therefore, the proper differentiator is whether an injunction, if granted, will enable the successful party to enjoy the benefits of a monopoly on its own products.

Because business necessity litigation is defined as that having the highest significance, the quality of the patents themselves are paramount. In the context of litigation, patent assertion quality can be measured using (a) the likelihood that the claims will read on the accused product; (b) the likelihood that the patent will survive attempts by the other side to invalidate it; (c) the likelihood that the other side will not be able to design around the patent to avoid future infringement; and (d) the amount of damages that are likely. For business necessity litigation, all of these quality factors should be high.

The need for using only high quality patents in litigation among peer competitors, in which each has significant exposure, is driven by an easily-understood condition: Many large manufacturers have patent portfolios numbering in the thousands, but litigation will only involve just a handful of patents. Thus, each side is likely to select from among the "best of the best" in its portfolio, which could easily be a mere fraction of a percent of the total number. While there are reasons to withhold the absolute best patents in some situations, for perhaps a looming, potentially more significant lawsuit with a different competitor, the patents selected by a large company for litigation against a major competitor are often among its top one percent in terms of quality.

Candidate patents, for possible use in the litigation, will likely be assessed by each side for applicable claim coverage, survivability, necessity for the other side to practice, and monetary significance. With so much on the line, the company cannot afford to jeopardize its position by asserting a patent that is weak on one of these quality metrics, or by skimping on the legal bills. Because the lawsuit may involve both assertion and defense for each party, the litigation budget is likely to be high for each side.

For product differentiation, a small company may be fighting for its survival, and the litigation can be critical. Fortunately, the situation may be that even a small company has a handful of high quality patents—perhaps covering the invention that spawned the company or enabled it to grow rapidly. For example, a set of patents on thumb-operable qwerty keyboards and push email, by a then-small Canadian company, launched the entire smartphone market.

So it is important to note that patent portfolio value is not determined by patent-counting.

Patents that are used for product differentiation need to prevent substitutes (also known as design-arounds), that permit a competitor to satisfy customer demand in a way that the difference is transparent to the customer, but is non-infringing. As used here, the term design-around means a non-infringing alternative, providing an acceptable substitute that meets customer demand for the features of the invention. Lacking the ability to preclude design-arounds, the patent owner's attempts to differentiate its products can be successfully circumvented by the other side. Design patents can often be used for product differentiation, when they apply to features that are easily-recognizable and desirable to consumers.

The product differentiation usage of an infringed patent supports arguments of (A) "irreparable injury to patentee" and (B) the "lack of available remedies at law," which are two prongs of the four factor test for justifying an injunction, as mentioned in the U.S. Supreme Court's eBay decision [x]. This is because the patent owner may lose market share and consumer goodwill to its competitors, which can have a long term affect on competitive market positioning that extends beyond the period of infringing sales. For income usage, however, the patent owner may have a demonstrated history of (A) benefitting from sales of products upon which the claims read, rather than being injured by such sales, and also (B) acting in a manner for which receiving money is not only an available remedy at law, but is actually the objectively manifest intent of the patent owner. In light of this, that an NPE might seek an ITC Exclusion Order appears to be logically nonsensical, unless explained by noting that, for "thousand patent products" anyway, the value of the technology taught in a patent can be dwarfed by the expected expense of an interruption to business operations or the expected expense of altering product design after the configuration had been frozen to permit manufacturing and finalization of supplier contracts.

Managed Risk

Not every patent litigation occurs between competitors, who are settling a cross-licensing dispute, or in which one is attempting to retain a monopoly. Some assertions are driven by NPEs that are funded by investors that are looking for high-risk/high-payout ventures. See [xi] and [xii]. The risks inherent to litigation can be managed intelligently, according to business finance principles that are used in other high-risk investment decisions, such as by using an expected value calculation. Expected value, often denoted as E{x} in financial decision-making processes, is essentially an integrated amount that accounts for potential income (or loss) amounts and the likelihood (*i.e.*, expectation) of receiving each of those amounts.

There is a fundamental difference, often overlooked, between litigation that is only among manufacturers versus litigation that involves an NPE. Manufacturers require freedom to operate, in order to continue selling products, whereas NPEs merely need to meet some threshold return on investment (ROI), using the E{x} calculation for the go/no-go decision of whether to make an assertion.

An interesting phenomenon, driven by this difference, enables NPEs to assert lower quality patents than those that would be asserted by a manufacturer. This phenomenon goes beyond the more widely-documented beneficial immunity from counter-suits, that NPEs enjoy as a result of foregoing manufacturing themselves.

The expected value, E{x}, of the litigation-derived income is more reliably determinable from past damages calculations, than by using predictions of market demand to estimate future royalty streams. Thus, the certainty of the E{x} calculations, used in the decisions of which patents to litigate (and whether to litigate at all), will be greater for patents having larger built-up past damages, than patents that would depend upon speculative future use for a larger portion of the licensing value. This incentivizes the assertion of patents covering older technology.

Additionally, a patent's ability to preclude design-around, which can be of critical importance in litigation among manufacturers, has notably reduced significance for this category of litigation. This then opens up the possibility for NPEs, that are engaging in managed risk litigation, to select patents for assertion that can be easily designed around—as long as the damages model calculations, generated by each side's trial experts, are not affected too severely. One of the metrics of litigation quality is therefore potentially rendered less important, merely by reducing the need for the alleged infringer to retain freedom to operate.

Also, because the litigation merely needs to provide an acceptable ROI, rather than possibly needing to preserve a manufacturer's viability as an ongoing operation, the threshold E{x} calculations can be tied to significantly lower values: the expenses associated with patent acquisition and typical plaintiff litigation expenses. These amounts can be much lower than the economic consequences of a manufacturer losing the right to profitably manufacture an entire product

line. As a result, the damages value can also relax below what would be required by a manufacturer, and yet still support a decision to litigate in a managed risk scenario.

The litigation budget may need to be sufficient to keep up with a potentially motivated defendant, if the settlement demand is kept fairly high. But an NPE plaintiff does have an exit strategy available, if the litigation turns out to be more expensive or less fortunate than had been predicted: lower the settlement offer to make it attractive for the defendant manufacturer to settle.

Yet another phenomenon is noteworthy: NPEs can be significantly more risk-tolerant in their selection of patents to litigate. The option of backing out of litigation with a lower settlement amount than initially expected, which is an option that may be unavailable to some manufacturers that are fighting for their very existence, provides an advantageous safety net. NPEs are thus free to assert patents that have even lower quality than merely those that have relaxed design-around value and damages value.

A patent can still be asserted in this scenario, even if it supports only a rather tenuous infringement allegation, such that the likelihood of an infringement finding is quite low, and even if it has a relatively low chance of surviving a validity challenge. The assertion value is often enhanced for such patents when the bulk of the inventive novelty resides in the drafting of the infringement contentions. If it turns out that the early stages of litigation go poorly, perhaps by receiving an unfavorable claim construction, an NPE can simply reduce its settlement offer to halt further litigation expenses and limit its losses. Investments can be riskier when a "stop loss" exit option is available. If, however, the early stages of the litigation go favorably, an NPE can continue demanding a relatively high settlement amount.

Thus, at least three economic realities enable NPEs to assert lower quality patents than those that must often be used by manufacturers in business necessity litigation. These three economic realities generally do not apply to business necessity litigation among manufacturers. They are (1) the availability of a "safety net" or "stop loss" option to settle out for a reduced ROI, if the litigation goes poorly; (2) the incentive to favor patents that emphasize past damages over future freedom to operate; and (3) the use of a limited investment amount, that is likely to be significantly lower than the value of an entire product line, in an ROI analysis for the go/no-go decision.

When compared with litigation among manufacturers, these realities reduce the minimum levels that are required for each of several quality metrics: (a) the likelihood of obtaining a finding of infringement; (b) the likelihood of survival in the face of validity challenges; (c) the likelihood of precluding design-around; and (d) the damages model amount that is based on the value of the technology to a manufacturer. See [xiii] for comments on a validity challenge over prior art.

Nuisance

For a nuisance suit, the value of the litigation (to the patent owner) is not based upon the value of the claimed invention to the manufacturer, but instead is based upon the manufacturer's expected defense costs. Because it costs so much to defend against a patent lawsuit, even when the defendant is certain of winning, there will be a substantial temptation for any defendant to pay some settlement amount that is less than the cost of a successful defense. See [ixx] linking the settlement offer amount to 10 percent of the defendant's expected litigation cost.

A sweet spot for nuisance assertions exists when an industry is populated with a significant number of companies that cannot afford to defend themselves, and so would go bankrupt if they tried, but yet the patent reads on common products with just barely sufficient credibility that (with careful forum shopping), the patent owner can avoid sanctions for filing the lawsuits. See [xx], quoting a business owner stating, "We couldn't afford a real law firm to fight this or even settle for us. …We're a small company of three guys. IP law firms charge $500-800 an hour. It would have bankrupted our company so quickly."

In this situation, the targets have no choice but to pay—even if the patent owner subjectively believes that a jury would likely find no infringement. See [xxi], identifying an amount of $5 Million and documenting the need to settle in order to avoid paying the expected costs of a defense, despite professing a belief in non-infringement. When the patent owner delays divulging specific infringement theories, the target companies cannot even afford to ascertain whether they have a meritable defense, before they must settle out to avoid bankruptcy. See [xxi] further, stating "At several points during our negotiations and discussions with [the patent owner], we requested from them specific information detailing the nature of the infringement they alleged. At no point did they produce that information."

Compare the accused infringing party's statements in [xxi] about paying license fees, despite not practicing the patent, with [viii], in which the Federal Circuit affirmed a trial court's characterization of a

patent owner's infringement complaint as baseless—but only after the patent owner had filed and settled "over 100 lawsuits." See page 7 of the decision in [viii] for details. So even when a patent owner did pay sanctions for a baseless filing, it occurred for less than one percent of the defendants.

As an additional benefit of targeting small companies that cannot afford to defend themselves, sanctions for filing frivolous assertions inherently become even more unlikely. Examples of safe targets include the "small, family-run startups" mentioned in [xx]. When a target cannot afford even a minimum defense, and must settle early to avoid bankruptcy, that target has no ability to meaningfully pursue a request for sanctions. Further, the patent owner can insist on including language in the settlement agreement to ensure that the target cannot publicize the amount it had to pay. This reduces the risk that someone might identify a pattern of patent licensing practices that is equivalent to "price gouging" against small companies that might not be infringing, but yet cannot afford a legal defense to demonstrate so.

Using the techniques described here, licensing income has been shown to be achievable, even when no one practices the patent. Further, some of the advanced tactics provide a measure of security for the patent owner's licensing program activities.

Quick Comparison Charts

The charts below provide summaries of the explanations given above, and enable easy comparisons of the various categorizations that have been described. ■

Usage Type			
Usage Feature	**Product Differentiation**	**Income**	**Cost Avoidance**
Exclusivity ***required***	X		
Exclusivity ***undesirable***		X	X
Manufacturer can practice	X	X	X
NPE can practice		X	

Usage Type			
Litigation Quality	**Product Differentiation**	**Income**	**Cost Avoidance**
Business Necessity	X	X	X
Managed Risk		X	
Nuisance		X	

Quality Level			
Metric	**Business Necessity**	**Managed Risk**	**Nuisance**
Minimum necessary likelihood of ***infringement***	HIGH	Medium	Low
Minimum necessary likelihood of ***survival***	HIGH	Medium	Irrelevant
Minimum necessity of ***precluding design-around***	HIGH	Low	Irrelevant
Minimum level of required ***damages model amount***	HIGH	Medium	Irrelevant
Assertion budget	HIGH (critical)	HIGH to Medium	Low

Usage type			
Exclusivity Status	Product Differentiation	Cost Avoidance and Income	
No 3rd party uses the invention	Licensing **Success** Price premium possible	Licensing **Failure** No incoming value	
A 3rd party does use the invention	Licensing **Failure** Price premium injured	Licensing **Success** or **Opportunity**	

Disclaimer

The opinions expressed herein are those of the authors, and do not necessarily reflect the views of Research In Motion.

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The Case For Admitting Settlement License Agreements In A Reasonable Royalty Analysis

By Stephen J. Conroy, Robert Knudsen and Russell Mangum

It is clear that a payment of any sum in settlement of a claim for an alleged infringement cannot be taken as a standard to measure the value of the improvements patented, in determining the damages sustained by the owners of the patent in other cases of infringement. Rude v. Westcott, 130 U.S. 152 Supreme Court 1889.[1]

I. Introduction

Estimating damages in a patent-infringement case almost always involves estimating a reasonable royalty for the patent in suit. The language of the relevant U.S. Code includes a provision for damages to be "no less than a reasonable royalty."[2] Of the 15 factors that are more pertinent for experts to consider according to *Georgia Pacific v. U.S. Plywood*,[3] the first two have to do with identifying an existing royalty rate—either for the patent in suit (factor 1) or other comparable patents (factor 2).

Given the emphasis on existing licenses either for the patent in question or comparable ones, we find the practice prevalent in many courts of removing from consideration any licenses originating from court settlements to be artificially limiting and possibly even harmful to the damages estimation process.[4] Since arguments in favor of using settlement license agreements (SLAs) have been articulated elsewhere[5] we wish to emphasize here a few key issues and concepts related to SLAs while incorporating a more detailed analysis of the settlement process—framed as a Licensing Negotiation Continuum—to provide insights into the considerations that should be made by experts when using SLAs. We also provide a model that provides a framework for analysis of the various factors—such as probability of winning the law suit and litigation costs—to consider when using SLAs in damages estimation analyses. Further, a recent ruling by the U.S. Court of Appeals, and interpretation of this ruling by District Courts, provide evidence that the courts may be becoming more accepting of the use of SLAs.[6] We argue that, from an economic viewpoint, that trend should continue.

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II. The Uncertainties of License Agreements

Due to the importance of terms in historical licensing agreements in establishing a reasonable royalty, courts will almost always admit into evidence non-settlement license agreements (NSLAs) for consideration by experts and the trier of fact in reaching conclusions about a

1. *Rude v. Wescott* is often referenced as precedent for the proposition that settlement license agreements are categorically inadmissible and/or irrelevant. This view is not universal, and one recent opinion clarifies the context of *Rude v. Wescott*, and concludes it does not support the view that settlement license agreements are categorically inadmissible and/or irrelevant to the determination of a reasonable royalty [Memorandum Opinion and Order, *Volumetrics Medical Imaging LLC v. Toshiba America Medical Systems, Inc. and Seimens Medical Solutions USA, Inc.*, pp. 11-34, June 20, 2011].

2. 35 U.S.C. § 284.

3. *Georgia Pacific v. U.S. Plywood* (U.S. District Court, SD NY, 1970; aff'd Second Circuit, 1971).

4. See, for example, *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1078-79 (Fed. Cir. 1983).

5. For a thorough discussion of this issue, see Chapman, Michael, 2009. "Using Settlement Licenses in Reasonable Royalty Determinations," *IDEA: The Intellectual Property Law Review*, 49(3), 313-357.

6. See, for example, *Resqnet.com, Inc. v. Lansa, Inc.*, 594 F. 3d 860 (2010) in which the majority decision rejected part of the damages calculations ("bundling" part) but accepted the other (settlement licenses). For an earlier Federal Circuit ruling favorable toward the use of an SLA, see *Studiengesellschaft Kohle m.b.H. v. Dart Industries, Inc.*, 666 F. Supp. 674, 682 (D. Del. 1987).

7. This does not mean the trier of fact will find the license(s) comparable, but unlike what has often happened with SLAs, NSLAs are typically admitted and related information can be weighed for relevance.

reasonable royalty.[7] In doing so courts are also at least implicitly acknowledging that a number of inherent uncertainties connected with NSLAs do not tarnish their potential value beyond usefulness.

NSLAs are normally obtained through publically available sources (such as licensing databases) or through the discovery process (in response to discovery requests regarding license agreements entered into by defendant or plaintiff). Agreements thus obtained often contain important information about the terms of the license, but seldom provide any information about the context under which a license agreement was reached. Thus experts normally have a basic description of the technology being licensed and the terms of the license (in particular the scope of the license and its financial terms) but little else. Specifically, potentially relevant considerations of which experts may be unaware include licensor and licensee assessments of: (a) patent validity, (b) past or expected future revenue subject to the license/patent, (c) patent design-around alternatives, (d) actual or anticipated litigation considerations, and (e) the relative value of other intellectual property, cross licenses, product support, *etc.,* that may be part of the agreement. In the context of the present discussion it is interesting to note that while litigation-related considerations may be an unknown for NSLAs, the presence of litigation-related considerations in the settlement is frequently a principle reason given for not admitting SLAs into evidence.

III. NSLAs Compared to SLAs

Due to the fact that actual market data can be an important element of a reasonable royalty analysis and that NSLAs are accepted as evidence despite the presence of a number of uncertainties, we now wish to contrast NSLAs with SLAs. Do SLAs have more uncertainties than NSLAs that would justify the exclusion of SLAs based on a greater level of uncertainty? Table 1 below lists a number of factors that could be relevant to an assessment of reasonable royalty and summarizes the general level of knowledge (low, medium or high) an expert would typically have regarding that factor, for both NSLAs and SLAs.

There are two factors ("scope of license" and "financial terms of license") where information availability is expected to be "high," three where information would be "medium" and five that would be "low." Focusing on a few of the assessments: "scope of license" is rated "high" because an expert would usually have a copy of the license that would describe its scope (e.g. exclusive vs. non-exclusive, field of use, geography covered, *etc*.). The "relative bargaining positions of the parties" is rated "medium," because some of this may be ascertained from research of publically available information (*e.g.* who are the parties, and are they competitors or inventor vs. manufacturer), whereas other aspects of this dynamic would be private. The "relative value of other IP" is rated "low," because information about the value of other IP referenced in a license agreement is usually difficult to obtain. The "anticipated litigation costs" is rated "medium," because information about the range of costs for patent litigation is publicly available information. Two litigation related factors are included for NSLAs (as well as SLAs), because almost all licenses are taken under some level of threat of litigation arising from steps taken to enforce potential rights conveyed by a patent.[8]

Comparing all of the factors in Table 1, what this analysis demonstrates is that the level of knowledge one has about an SLA is often at

Table 1. Potentially Relevant Factors For A Reasonable Royalty Determination And Level Of Information Generally Available To Expert

	Information Availability	
Factor	**NSLA**	**SLA**
Understanding of licensed technology	Medium	Medium
Scope of license	High	High
Financial terms of license	High	High
Assessment of patent validity	Low	Low (or higher)
Revenue subject to license	Low	Low (or higher)
Design-around alternatives	Low	Low (or higher)
Relative value of other IP and support contained in the license	Low	Low
Relative bargaining positions of the parties	Medium	Medium (or higher)
Assessment of litigation risks and liability outcomes	Low	Low (or higher)
Anticipated litigation costs	Medium	Medium (or higher)

least as good as an NSLA, and may in fact be better. Generally, the level of information known about an SLA relative to an NLSA will be greater the further along the litigation progressed prior to the settlement due to the information learned about the patent and its related products during the litigation discovery process. This is particularly true if the SLA in question relates to the patent(s)-in-suit. For example, "revenue subject to license" is rated "low" for NSLAs because knowing sales by product (or even products subject to the patent) is generally not publically available information, whereas this non-public information may be available for SLAs as a result of the litigation discovery process.[9]

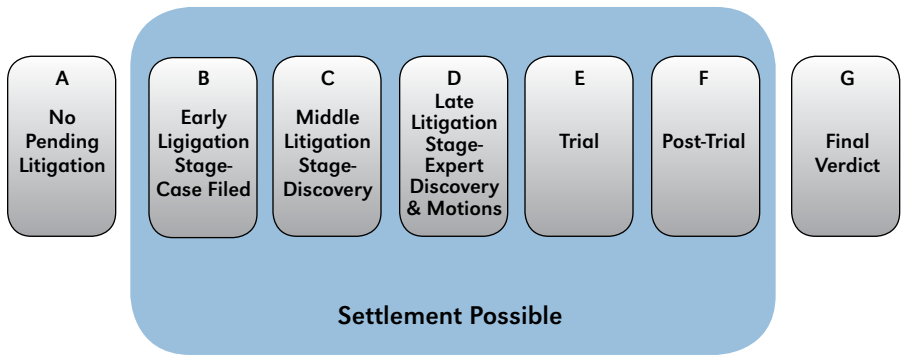
If the amount of information or level of information certainty connected with the NSLA vs. SLA is not the distinguishing factor for acceptance vs. exclusion, then perhaps there is some other reason, *e.g.*, the litigation process itself? To address this question it is important to remember that a patent relies on the law for its value. The grand bargain of the patent system is: make your investment, develop your invention and disclose your results in exchange for a temporary, legally enforceable right conveyed by the patent that is the initial source of the invention's value. Without this legal right, the copier, or the creator of a product that happens to use the patent, has little if any incentive to pay the patent holder. Here again, SLAs do not appear to be markedly different than NSLAs, in that in both cases the license is taken due to the legally enforceable right (or potentially enforceable right) and the related financial terms reflect the underlying economics of the invention and the cost of litigation. The difference between NSLAs and SLAs is that the SLA occurred after it had passed beyond the threat of litigation to actual litigation, and was agreed upon before a final verdict was delivered in the case. It is important to understand here that all licensing agreements—SLAs and NSLAs—exist because of the credible threat of patent enforcement, *i.e.*, litigation.[10] While there are many reasons parties litigate, the litigation process can be viewed as an economically rational way to gather the information necessary to reach a reasoned outcome. As such, we argue that SLAs may actually confer some advantages over licenses agreed to before a law suit has been filed.

IV. Licensing Negotiation Continuum

As the previous section suggests, the process of negotiating a license can be thought of as a continuum with many different stages at which a license can be entered into, starting with pre-litigation negotiations and going all the way to an adjudicated outcome. The existence of this continuum further supports the idea that SLAs should be allowed to be considered in a reasonable royalty analysis. A representation of the licensing negotiation continuum is shown in Figure 1.

As shown in Figure 1 the negotiation could occur before a law suit has been brought to the courts ("A"). It could occur any time during the litigation process in the form of a settlement ("B"—"E"). The license could also be the result of a trial verdict ("F"), either a verdict on liability or a verdict on liability and damages.[11] Finally, the license could be the result of a full-adjudicated outcome after all appeals have been exhausted ("G"). What seems incongruous is licenses

Figure 1. Licensing Negotiation Continuum



8. If no threat of litigation existed, there would be little motivation to incur the costs of obtaining a license, and little value in the license once obtained. Neuenschwander (2002, p. 100), provides an example in which negotiation for a patent license was actually suspended by the prospective licensee until a law suit was filed by the patent-holder in order to demonstrate a credible threat of litigation. [Neuenschwander, Charles R. 2002. "Is That Your Final Offer? Valuing Patent Licenses in Infringement Negotiations," *les Nouvelles*, September, 100-103.]

9. See Footnote 5, supra.

10. See Neuenschwander, Charles R. 2002, supra.

11. Legal proceedings are sometimes bifurcated, such that a finding of liability may be reached and damages are then the subject of a second trial (repeating to some degree steps "C"–"E"). Post-trial, step "F," refers to a settlement outcome after a verdict on liability or liability and damages has been given.

that occur in stages "B"—"E" are viewed differently by the courts from those in "A," "F" and "G" from an admissibility standpoint. There are two facts about the licensing continuum that highlight this incongruity. First, generally speaking, the further along the continuum one moves the more the economic facts underlying the license become known. Thus at stage "C" accused revenue and product profitability would normally become known, whereas at Stage "A" these facts are likely not known or much more uncertain. Second, the further along the continuum one is, the more litigation related events have occurred. Thus at the conclusion of stage "E" all the evidence will have been submitted to the court, and a verdict (at least on liability) will have been rendered.

Even if one were to argue that settlements occurring at stages "B"—"E" are somehow less-valuable or perhaps of a lower quality than those at "A" or "F," we would argue that information from these SLAs would be better than no information at all—especially in cases where there is no other actual market-based license to which experts could refer. Expert witnesses can use the information and weight it accordingly, and opposing experts can identify flawed interpretation or application. Failure to consider this important information may ultimately lead to inferior damage estimations. Chapman (2009) articulates this point well in his discussion of why even an "established royalty" may not necessarily be a "reasonable royalty."[12]

A final concern here is that the proportion of IP cases resolved by trial has apparently declined dramatically. Galanter (2004) found that the proportion of trials as a percent of dispositions fell from 10.6 percent in 1962 to only 2.4 percent in 2002 while the number of dispositions increased from 1,595 to 7,872.[13] Thus, to the extent that the courts rely on information from only "A," "F" and "G" in our Figure 1 and exclude information from "B"—"E" the potential impact on available evidence is substantial and increasing.

VI. Discussion of Seven Reasons Courts Have Given for Excluding SLAs

The court in its role as gatekeeper may deem SLAs inadmissible for a variety of reasons. We would argue that in almost all cases those reasons relate to economic factors that can be weighed by experts in assessing the ability of an SLA to inform a reasonable royalty analysis. There is actually little harm in admitting all SLAs since characteristics that would deem them irrelevant or inappropriate for use can be identified, and highlighted by cross examination and/or by testimony by opposing experts. The reasons for exclusion of SLAs from evidence (shown in italics below) and our comments regarding their inclusion from a financial experts' perspective are as follows:

i. *SLAs are made in the context of litigation and therefore influenced by litigation considerations.* While this is certainly true, this is no different from most other NSLAs which are also taken as a result of threatened litigation. Courts routinely (and rightfully) admit into evidence abstracts from royalty databases, as well as the licensing agreements of plaintiff or defendant, with little or no consideration of whether they may have been influenced by actual or threatened litigation. We see little evidence that license agreements in general are the result of the desire to obtain know-how, but rather much more commonly the result of implicit or explicit enforcement of a patent.

ii. *The royalty dollar amount of an SLA may be influenced by the cost of litigation*. To the extent this is true, it would also be true of most NSLAs. Moreover, this is an economic fact that can be taken into consideration in assessing the royalty amount indicated by the license. There are a number of sources that provide information on the cost of patent litigation. These amounts can then be used to assess how they may have influenced a licensing negotiation. Often a simplifying assumption about the direction of the influence can be made to establish a floor or ceiling indicated by the license, or it may be the case that since both parties can be expected to incur similar costs that the cost of litigation has no ultimate influence on the royalty rate or amount. These are all factors that can be weighed by the expert in assessing the usefulness of the license in determining a reasonable royalty. It is also important to remember that the farther one moves along the Licensing Negotiation Continuum, the less influence future litigation costs should have. Sunk litigation costs (past costs that are not expected to be recovered) are clearly irrelevant to a decision to settle in order to limit litigation costs.

12. Chapman, 2009, p. 325, including footnote 49. Note that Chapman is arguing for a proper weighting of all of the relevant factors in using existing royalties as a basis for determination of the reasonable royalty. He notes on p. 338 regarding the Comparables Method: "The (Comparables) method simply requires comparable licenses and relies upon the expert and fact-finder to adjust the terms of the comparable licenses to account for the differences between the observed license and the hypothetical license."

13. Galanter, Marc., 2004. "The Vanishing Trial: An Examination of Trials and Related Matters in Federal and State Courts," *Journal of Empirical Legal Studies*, 1(3), 459-570.

Thus, an SLA entered into on the eve of trial should be much less influenced by future litigation costs than one entered into shortly after a case is filed. In Section VIII below, we present a model that can be used in considering what influence, if any, the cost of litigation may have on a royalty amount.

iii. *The SLA terms may be influenced by the defendant's ability to pay the settlement amount.* The same may be true of an NSLA (*i.e.*, the financial terms can be influenced by a licensee's ability to pay). Thus, this is not a condition that differs between SLAs and NSLAs. Again this is an economic fact that can be taken into consideration in assessing the royalty amount indicated by the license. In particular the financial expert can look at the financial condition of the licensee in determining if this may have been a factor.

iv. *The SLA royalty amount may be influenced by an assessment as to the strength/validity of the patent*. First, this is also true of NSLAs that are nonetheless admitted and considered by the expert.[14] Second, in any estimate of value experts are called upon to make risk assessments and judgments about factors that call for a royalty to be adjusted either up or down. These adjustments may be handled through the application of a discount rate or as one of a series of factors influencing the royalty rate up or down, as is frequently done when performing a Georgia Pacific type analysis. Third, this may not always be the case, depending on when, in the course of litigation, the settlement occurred. For example, in a bifurcated proceeding where liability has been established, or when court rulings have made infringement and/or validity virtually assured.

v. *Facts may not be known about the context of the settlement, such as the units or amount of accused revenue.* Once again, this is not a factor that distinguishes SLAs from NSLAs. There is no reason to believe, as a general matter, that more is known about these facts when evaluating an NSLA compared to an SLA. In both instances, this is an area that can be researched by the financial expert. The outcome of that research would then determine to what degree the license proves useful to the overall analysis. In fact, there is a legitimate reason to believe that in many SLAs—those where litigation has progressed into discovery—more is known about the extent of accused commerce (*e.g.,* units, revenue, profitability, related goods) than an NSLA. In these instances, SLAs are superior, not inferior, to NSLAs in terms of information known by the parties when entering into the license.

vi. *SLAs may have dates after the date of the hypothetical negotiation.* This issue is not a distinguishing characteristic of SLAs, as the identical issue arises for NSLAs. In either case the use of information after the hypothetical negotiation date is a common and accepted practice (see for example, *Fromson v. Western Litho Plate and Supply Co.*, 1988). Financial experts are commonly called upon to make fact-based adjustments to market data to reflect the passage of time. This is not a logical reason to treat SLAs differently than NSLAs.

vii. *The SLA is for a lump sum rather than in the form of a running royalty rate.* Conversion from lump sum to running royalty (or vice-versa) is a common issue dealt with by experts analyzing a licensing agreement (whether settlement related or not) and should not therefore be the basis for excluding potentially relevant economic information.[15] There are relevant conceptual and quantitative issues to address when utilizing lump sum royalty payments to establish a running royalty rate, but these issues can be addressed by the financial expert and are irrelevant with respect to considering characteristics of SLAs, relative to NSLAs, that would justify excluding the former from the information set available to the financial expert.[16]

VII. Three Good Reasons Why SLAs Should Be Used

Our review of SLAs is not limited to the argument that reasons to exclude them are unfounded (at least relative to the apparently accepted position that NSLAs are nearly universally allowed to be considered). We have also identified three affirmative reasons that SLAs should be included in the information a financial expert can and should be allowed to consider when forming an opinion on reasonable royalty damages.

14. It may be the case any given NSLAs may reflect a situation where the parties generally agreed on the likely validity and accused infringement of the patent at issue. But, this is also true with respect to SLAs. The fact that parties entering into a license agreement may have anywhere from widely disparate to highly congruous views on liability and damages is not related to whether the agreement is a SLA or NSLA, and does not support a position for differential treatment with respect to whether the agreement should be included in the information available to the expert when informing opinions.

15. See Lu, Jiaqing "Jack." 2010. "Does Upfront Payment Reduce Running Royalty Rate? Theoretical Perspectives and Empirical Analysis," *les Nouvelles*, 45(3) (September), 160-165.

16. A more specific treatment of the methods and issues related to conversion of a lump sum royalty to a running royalty is beyond to scope this paper. Suffice it to say, however, that the information helpful to such an analysis is more likely to be available through discovery in a litigation setting.

First, SLAs confer (potentially valuable) information. Even if that information is influenced by various factors relating to the settlement or the settlement process, or even ultimately given little or no weight by the expert, we believe that having more information is better than less. While it is important to obtain as much information as possible when considering SLAs, there are bound to be unknowns. The job of the expert is to assess the known and unknown facts about the license to determine the degree to which it can inform the ultimate conclusion. Again, as a general matter we believe that financial experts can provide more accurate estimations with more information and approaches, not fewer. Further, if an expert determines that the additional information does or does not have probative value, then the reasons for that conclusion can be fully vetted by both sides and the trier of fact can have the benefit of that process. *A priori* exclusion of all SLAs precludes the opportunity for this to occur.

Second, SLAs can provide a valuable cross check against other approaches, such as the use of "comparable" licenses. As noted in our discussion above regarding the uncertainties of license agreements, even NSLA based royalty rates are not without their flaws. We are not the first to make this observation.[17] Degnan and Horton note, for example (p. 95) that "Royalties are seldom, if ever, 'pure.' Rather, they are contextual. They are forged in the crucible of arms-length negotiations where the royalty rate, although a vital component, is frequently not the only important issue." Notice the parallel criticism here between NSLAs and SLAs, namely that both agreements are potentially "contextual" and part of a complex negotiation. To exclude one (SLAs) and accept the other seems inconsistent with this economic reality.

Third, it is frequently the case that SLAs are the only source of real world royalty transactions for the patents in suit. While one may be able to argue that licenses agreed upon in the absence of a pending law suit are preferable to SLAs (though we have provided several reasons why this may not be so), it is very difficult to comprehend why one would prefer to ignore SLA information in cases where there are no other NSLAs to consider.[18] The more unique the technology, the more important it is to have evidence of actual rates or amounts paid for the use of that technology. Relative to differences in technology between the patent in suit and "comparable" licenses, any litigation related influences may be minor by comparison. The need for licenses that reflect actual arms-length negotiations (whether in settlement of litigation or not) is further amplified in situations where the patent relates to a small portion of a much larger product. Here again, we believe that more information is better than no information, especially when it is presented by experts who are aware of the potential complications surrounding SLAs. While this analysis has so far focused on reasons why SLAs should not be excluded from consideration, in the next section we provide specific issues that should be considered by experts in weighing the advantages and disadvantages of considering SLAs.

VIII. Negotiated vs. Court Mandated Royalty—a Model

Given that patent litigation is an expensive undertaking, any royalty amount negotiated prior to a court verdict may be meaningfully influenced by the anticipated cost of future litigation. As discussed earlier, this is true whether the negotiation occurred prior to or after the filing of a lawsuit (*i.e.*, SLA or NSLA). We present here a model we think can be useful in looking at the influence that litigation cost may have in reaching a negotiated settlement. To initiate this discussion, consider the following model: Say there are two parties, a risk-neutral patent-holder ("H") and a risk-neutral alleged patent-infringer ("I").[19] A potential patent-infringer would agree to settle a case (or reach a negotiated amount) if,

$$R_S < p_I R_C + C_I \qquad (1)$$

17. See, for example, Chapman, 2009; and Degnan, Stephen A. & Corwin Horton. 1997. "A Survey of Licensed Royalties," *les Nouvelles*, 32(2) (June), 91-96.

18. Consider a situation where the evidence in the case includes licenses for actual patent(s)-in-suit (a relatively common occurrence), but those licenses are SLAs. If the only other licenses available are for technologies of questionable comparability, *a priori* elimination of all SLAs from consideration is unwise. Recently, in *Resqnet.com, Inc. v. Lansa, Inc*. (*Resqnet.com, Inc. v. Lansa, Inc.*, 594 F. 3d 860 (2010), in III(B), the court did conclude that " …the most reliable license in this record arose out of litigation"). A prudent approach would be to allow consideration of the most reliable evidence by each party's experts that will have to defend their reliance or rejection of the evidence in the course of forming their opinion. To further the example along the lines discussed above, what if the SLA for the patent(s)-in-suit actually occurred after a trial verdict where validity and infringement was already found. In such a situation, dismissing the evidence as irrelevant or fatally flawed would likely be a disservice to the goal or accurate, reliable, economic analysis.

19. This could include an "alleged infringer" in the case of settlements after a third party has adopted the technology in question, or just a "potential licensee" that has yet to adopt the technology in question. For a similar analysis of settlement in general, see Bebchuk, Lucian Arye. 1984. "Litigation and Settlement under Imperfect Information," *Rand Journal of Economics*, 15(3) (Autumn), 404-415.

where R_S is the present value of settlement royalty payments,[20] p_I is the alleged infringer's expected probability of losing the case, R_C is the expected present value of royalty payments from a court verdict on damages, and C_I is the cost of future litigation to the alleged infringer.

Similarly, a patent-holder would agree to settle a case if,

$$R_S > p_H R_C - C_H \qquad (2)$$

where pH is the patent-holder's expected probability of prevailing in the case, and CH is the cost of future litigation to the patent-holder.[21] Combining (1) and (2), a condition for settlement is that,

$$p_H R_C - C_H < R_S < p_I R_C + C_I \qquad (3)$$

In general, the conditions of (3) are more likely to be met, *i.e.*, a settlement is more likely, as the right-hand side ($p_I R_C + C_I$) increases and the left-hand side ($p_H R_C - C_H$) decreases. Thus, a settlement is more likely: (a) the higher the alleged infringer's expected probability that the patent-holder would win the case (p_I), (b) the lower the patent-holder's expected probability of winning the case (p_H) and (c) the higher the cost of future litigation for either party (C_I and C_H).

There are several other important implications that follow from (3). When the stakes are high (*i.e.*, high value of R_C) relative to future court costs (C_H and C_I), then the probability assessments of the patent-holder winning the case (p_H and p_I) drive the model (*i.e.*, affect the likelihood of settlement) and litigation costs would normally play little or no role in the settlement. This explains why litigation may be necessary to reach a settlement by causing a convergence of perceived outcomes to occur.

When the probability of patent-holder's litigation success is low (P_H and P_I) and/or R_C is low, then the litigation costs may play a much larger role in the settlement amount.[22] For example, this describes the situation where an alleged infringer pays a settlement amount, even when they ascribe little or no value to the patent simply to avoid the cost of future litigation. Note, that even in situations like this, where the cost of litigation heavily influences the settlement license, important information is nonetheless conveyed about the value of the patent.

Another important implication of this model has to do with the timing of settlements. Since court costs are sunk, as one moves through the litigation process (from "B" through "E" in Figure 1), future litigation costs, C_I and C_H would decline. This is expressed mathematically as,

$$\frac{\partial C}{\partial t} < 0 \qquad (4)$$

where t is time. Thus, as the litigation process moves forward from "B" to "E" in Figure 1, the future litigation cost components move toward zero. In other words, SLAs occurring toward the right-hand-side of our Figure 1 are less likely to be influenced by the future cost of litigation.

There are numerous nuances and scenarios that could be examined with respect to the model, but those are beyond the scope of this current endeavor. We wish to present the basic construct, however, because we believe it offers useful insights into our discussion of consideration of SLAs—particularly how litigation costs may influence the outcome of licensing negotiations for either SLAs or NSLAs. We believe this model provides an important framework for consideration by experts who wish to evaluate the costs and benefits of using SLAs in their analysis.

IX. Conclusion

The exclusion of SLAs by the courts seems artificially limiting. Since fact finders can access, evaluate and analyze information—including contextual factors surrounding settlements—we argue here that courts should allow for consideration all relevant information, including SLAs.

We have shown here that NSLAs and SLAs share many common characteristics. In fact, when comparing information availability for 10 relevant factors of consideration (Table 1), we argue that SLAs and NSLAs generally have similar levels of information availability and uncertainty.

In this analysis, we provide a "Licensing Negotiations Continuum" framework for analysis (Figure 1). Since litigation is always (at least potentially) a threat, we argue that the Licensing Negotiations Continuum framework is a useful way to approach and analyze

20. The present value could be derived from a one time, lump-sum royalty, or a stream of running royalty payments. Theoretically, as long as information is available to reliably estimate expected accused revenues and uncertainly about future royalty streams (through discounting and/or other methods) the two royalty structures are identical. As noted in Lu (2010) (footnote supra, p. 160), "Simply put, the method of payment does not really matter. Borrowing the analogical interpretation of Modigliani-Miller Theorem, the size of the pie; in this case, a licensor's share in technology value; has nothing to do with how it is sliced."

21. Note that the patent holder may have a different view of RC than the alleged infringer. For simplicity here, we assume any such differences are included in PH and PI.

22. As noted by the U.S. Court of Appeals Sixth Circuit case, *Panduit v. Stahlin*: "License fees negotiated in the face of a threat of high litigation costs may be strongly influenced by a desire to avoid full litigation" (Panduit, 575 F. 2d at 1164, n. 11).

this question. Further, the Licensing Negotiations Continuum framework demonstrates that cutting off SLAs from consideration is inconsistent with the accumulation of additional information and lessening of future litigation costs that occurs as one moves through the continuum.

We discuss seven common reasons why SLAs have been excluded from consideration by the courts and offer a response to each one. We provide three more reasons why SLAs should be considered, namely (a) they confer potentially valuable information, (b) they provide a valuable cross check against other approaches (*e.g.*, "comparable" licenses), and (c) they are often the only source of real world royalty transactions for the patents in suit. As such, we believe SLAs should be allowed for consideration.

We conclude our analysis by providing a model to analyze the settlement process. We briefly examine how the model can be used to assess the influence that the cost of litigation may play in the outcome of negotiated licenses (either SLAs or NSLAs). In so doing we demonstrate that methods exist for taking into account one of the main objections to the use of SLAs (*i.e.* the cost of litigation) and that SLAs may indeed provide valuable and unique information important to reaching a reasonable royalty conclusion. ■

Model Contracts And Supporting Initiatives In Europe Facilitating Collaboration Of Publicly-Funded Research Organizations (PROs) With Businesses

Part II

By Thomas L. Bereuter, David Jerolitsch and Peter G. Heimerl

Abstract

Model contracts for collaborative R&D between universities or other publicly-funded research organizations and businesses have been developed nationally by platform- as well as by single-initiatives. They intend to facilitate negotiation of terms and conditions so that partners can enter into relationships enabling effective and efficient technology transfer. As these initiatives are on a national basis corresponding national legal regimes are reflected.

Focusing on those model contracts, different aspects of the relationship between for-profit companies and knowledge oriented publicly-funded research organizations are analyzed systematically. Summarized in a matrix, model contracts can be compared to each other and similarities or differences in the specific approaches become more obvious.

Based on this analysis, conclusions are drawn in order to assist the development of future initiatives as well as to assist the negotiation of mutual cooperations. It is recommended to stakeholders involved to follow a seven-step procedure in order to optimize the positive effects for all parties involved.

1. Introduction

Several studies about IPR ownership and exploitation as well as voluntary codes of practice on a supranational or national level do recommend the development of model contracts for collaborative R&D between universities or other publicly-funded research organizations and businesses.[1] The CREST Group *e.g.*, mandated by the European commission, developed the CREST cross-border collaboration decision guide[2] to help businesses and PROs to decide the best way to arrange matters in their collaboration agreement. The CREST report concluded that achieving model agreements, which could have a pan-European application, might not be possible as the agreements could become too complicated to be of practical use. Instead, the CREST report recommended the development of such model agreements at a national level.

Several sets of model contracts have been developed by national platform- as well as by single-institution's initiatives. Model contracts intend to facilitate negotiation of terms and conditions so that partners can enter into relationships enabling effective and efficient technology transfer.

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Even for legal regimes that are quite similar the number of subtle national differences become a challenge. Therefore, several model contracts have been developed on a national level, which do reflect: a) the interest of business- and of research-oriented partners to clarify essential aspects of cooperation and IPR-exploitation, as well as b) the national characteristics of the underlying patent—and IPR-related laws. The latter is crucial for final phrasing of an individual contract, but the former is essential in order to negotiate agreements efficiently. In this sense model contracts might also facilitate cross border collaborations.

Furthermore, the analysis of initiatives and their model contracts might inspire upcoming initiatives in those countries where there is still a demand per-

1. Thomas L. Bereuter, David Jerolitsch and Peter Heimerl, "IPR-Codes And Guidelines In Europe Facilitating Collaboration Of Publicly-Funded Research Organizations (PROs) With Businesses," *les Nouvelles*, September, 2011, p. 226.

2. *ec.europa.eu/invest-in-research/policy/crest_cross_en.htm*

ceived for a national set of contracts. It might also encourage stakeholders, who want to complement their national or institutional set of contract models in order to achieve a better support for IPR-management in collaborations.

With any given set of model contracts one can't expect to apply those contracts to a larger number of projects without any adjustments. Either the special circumstances of the project or one of the cooperation partners will demand for changes. Each cooperation needs specific assessment to find out if and which model contract to choose and which adjustments to be made.

2. Initiatives

The various initiatives screened are classified in the following section as "platform initiatives" and "single initiatives," respectively. In platform initiatives several PROs and businesses were engaged, whereas in case of single initiatives only institutions from either PROs or businesses had the lead. Initiatives of third parties, like a research fund, may be viewed either as platform initiative (e.g. EU.1 to EU.3) or as a single initiative (e.g. AT.5).

2.1. Platform Initiatives

In the case of "platform initiatives," the engagement of both, PROs and businesses, usually goes along with a broader discussion and exchange of different viewpoints over a longer period with the intention to achieve improved awareness and involvement of stakeholders, better education of the interested public, more balanced model contracts dedicated to win-win relations as outcome of the discussions and, eventually a wider application of the final outcome in every day work.

EU European Commission

Since FP6, Consortium Agreements (CA) are mandatory for most FP-funded research projects. The purpose of a CA is to regulate critical aspects of project governance not covered by the grant agreement between the European Commission (EC) and the project consortium. Key aspects covered in CA are typically: (i) the internal organization of the consortium; (ii) the distribution of the EC financial contribution; (iii) liability and confidentiality arrangements between partners; (iv) management of intellectual property and access rights to results (*e.g.* when, and on what terms, should access to results be provided to other partners and their affiliates).

From a variety of different model contracts available, only three were selected as those are used most frequently in practice. Furthermore, due to their wide European publicity, those contracts have a great normative impact on how collaboration contracts are set up, even outside the related programs.

EU.1 Seventh Framework Programme. Model Grant Agreement

The European Commission adopted in 2007 the general model grant agreement to be used in research projects funded under the 7th Framework Program (FP7). This model grant agreement is applicable to the indirect actions under the Specific Programs 'Cooperation' and 'Capacities' of FP7. It consists of a core text and several annexes. In annex II all relevant IPR provisions are described. In particular rules concerning foreground-IP and assignments are specified in detail. The provision that assignment of IP to a recipient outside of the EU requires approval by the EC seems worth mentioning. Also very particular is the provision, that access rights to foreground have to be granted to partners if they need it for use of their own foreground. In DESCA (*cf.* below) there are options to specify if those are granted on fair and reasonable conditions or on a royalty-free basis. There is also a list of special clauses to be introduced in the grant agreement whenever appropriate.

The original language of the grant agreement and its annexes is English. The translations into the other community languages are provided to facilitate the understanding of the grant agreement and its annexes. The translations are not legally binding and are not officially approved.

Both, the DESCA Group FP7 Consortium Agreement and EICTA FP7 Consortium Agreement, which are discussed below, refer to annex II of the model grant agreement.

EU.2 DESCA Group FP7 Consortium Agreement

DESCA, **DE**velopment of a **S**implified **C**onsortium **A**greement, is a comprehensive, modular consortium agreement for FP7; initiated by key FP7 stakeholder groups,[3] and co-developed with the FP community. It seeks to balance the interests of the main participant categories in FP research projects: large and small firms, universities, public research institutes, *etc*., in the spirit of Responsible Partnering.[4] Moreover DESCA is also a simplified consortium agreement compared to many of the FP6 models in both content and language. Therefore, it is enjoying a broad support within the FP community.

3. DESCA was initiated by ANRT (*www.anrt.asso.fr*), the German CA-Team (represented by Helmholtz—*www.helmholtz.de* and KoWi—*www.kowi.de*), EARTO (*www.earto.eu*), Eurochambres (*www.eurochambres.be*), and UNITE (*www.unite.be*).

4. *www.responsible-partnering.org.*

DESCA is supplementary to the rules for participation and the grant agreement of the European Commission (EC) including its annex II (*cf.* above EU.1). Therefore, many items regulated there are not repeated in the DESCA consortium agreement, but have to be taken into account. It is recommended to have the DESCA consortium agreement signed before the EC grant agreement.

DESCA offers options for clauses around its core text enabling adoption to quite different project types (*e.g.* large long-term multi-partner consortia versus close-to-market SME-centered projects) or different actor categories (*e.g.* research-oriented universities versus application-focused enterprises). Furthermore, there are options to include or exclude access rights to background. There is also a module with specific software provisions.

DESCA contains guidance notes to help research managers without legal training to recognize key issues and to make informed choices about the best options to approach win-win agreements.

UK.1-5 Lambert Tool Kit

In the Lambert review[5] it was proposed that key stakeholders representing universities and business should work together to develop a range of model collaborative research agreements. Consequently, the *Lambert Tool Kit*[6] was developed by a working group including key stakeholders such as AURIL, CBI Confederation of British Industry, RDAs Regional Development Agencies, SBS Small Business Service, UNICO,[7] a number of UK companies, universities, and several government departments chaired by Richard Lambert. The group was facilitated by the IPO and the DIUS Innovation Group.[8]

The resulting Lambert-Agreements are representing various approaches to IP ownership, management and exploitation rights including ownership of the IP by the university with non-exclusive licensing or exclusive licensing to industry for voluntary use by business and universities up to nearly unrestricted ownership of the business partner:

UK.1—the University owns the IP in the research results and grants a non-exclusive license to the company sponsor allowing the use of the results in a specified field and/or territory.

UK.2—the University owns the IP in the research results and licenses to the company sponsor the use of the results in a specified field and/or territory, but the company sponsor has a right to negotiate an exclusive license regarding certain results.

UK.3—the University owns the IP in the research results and licenses to the company sponsor the use of the results in a specified field and/or territory and the company sponsor has a right to negotiate the assignment of the IPRs in some of the results.

UK.4—the company sponsor owns the IP in the research results, but some rights are reserved to allow the University to use the results for academic purposes (including academic publication) on certain conditions (protecting the confidentiality of the company sponsor's data; avoiding jeopardizing the option for the company sponsor obtaining patent protection).

UK.5—the company sponsor owns the IP in the research results, and the University has no right to publish the results.

The model agreements typically have between 11 and 14 pages. They are commented and, based on a questionnaire based guide, selection of the most suitable type is supported.

The content of the suggested contracts are quite complete–however regulations about background-IP required for commercialization of foreground-IP and regulations about inventor's remuneration are missing.

DE.1-4 Model Contracts by the Federal Ministry of Economics and Technology

The Federal Ministry of Economics and Technology (BMWI) in Germany initiated a working group in order to summarize existing model contracts. On that basis four bilateral model contracts with 10 to 15 pages each were elaborated: two for contract research (options: IP-licensing or -assignment), one each for research collaboration and service contract. In addition these model contracts are compared to other initiatives in Germany. The final outcome was published in a booklet of 80 pages in 2007. It was updated in 2010 to consider the lessons learned as well as the Community Framework for State Aid for Research and Development and Innovation and new legislation relating to the inventor's remuneration.

Several regulations are in clear favor of businesses (*e.g.* publications require a twofold request till they can be published; compensation for IP needs to be calculated within the project costs, background IP

5. Lambert Review of Business-University Collaboration: *www.hm-treasury.gov.uk/d/lambert_review_final_450.pdf.*

6. *www.innovation.gov.uk/lambertagreements.*

7. PraxisUnico is an educational not-for-profit organization set up to support innovation and commercialization of public sector and charity research for social and economic impact. www.praxisunico.org.uk.

8. Department for Innovation, Universities and Skills was merged 2009 with the Department for Business, Enterprise and Regulatory Reform creating BIS The Department for Business, Innovation and Skills *www.bis.gov.uk.*

required for commercialization has to be free).

DE.5-6 Berlin Contracts—"Berliner Verträge"

Universities in Berlin and their patent commercialization agency ipal GmbH[9] in cooperation with industry (represented by companies like BASF, Bayer AG, Robert Bosch, DaimlerChrysler, Deutsche Telekom, Rolls-Royce, Schering) elaborated model contracts for contract research and research collaboration. The first edition was published in 2002, updated with the lessons learned in 2007. The Berlin Contracts have formed the initial starting point for the model contracts by the Federal Ministry of Economics and Technology (DE.1-4; *cf.* above).

In order to differentiate contract research and research collaboration, a list of evidences is provided that facilitates the classification. Furthermore a comparison shows the differences between the modules of the contracts. For certain issues alternative options are provided (*e.g.* compensation, invention disclosure). A guideline for calculation of the compensation is added as well.

The clear focus on IP topics results in the lack of issues that are usually part of a contract like warranty, confidentiality, rescission, *etc.*, but those issues hardly become show stoppers. The spirit of the model contract is that PROs and business are treated as equal partners and therefore wording is balanced.

DE.7 Contract Workshop Düsseldorf—"Düsseldorfer Vertragswerkstatt"

The Contract Workshop Düsseldorf is a cooperation of the Centre of Intellectual Property and the technology transfer unit at the Heinrich Heine University Düsseldorf, which is supported by the patent commercialization agency PROvendis. Other higher education institutions and businesses of different branches are integrated by interviews and questionnaires, but also by involving the lobbyists of businesses.

The initiative started in 2004 and published in 2008 the fourth edition of optional modules for model contracts and in 2006 its revised version of an R&D collaboration contract.

The Düsseldorf contract is comprehensive, balanced and, due to the various options, broadly applicable. Nevertheless the contract with 8 pages stayed rather short.

AT.1 Graz University of Technology & Federation of Styrian Industries

Model contracts were developed based on the guidelines developed together with industry and coordinated by the Federation of Styrian Industries. Covered in the table is one corresponding model contract for research collaboration that implements the option which is chosen most frequently: In case of contract research IPR is transferred to the business partner and the IP is prepaid by a lump sum to the PRO, independent of the facts if IP is generated and what its potential might be. The inventor's remuneration, depending on the economic success of an invention, is financed without any cap by the business partner in addition to the lump sum.

AT.6 IPAG Intellectual Property Agreement Guide

IPAG Intellectual Property Agreement Guide is an initiative of several Austrian universities facilitated by the patent and licensing management division of *austria wirtschaftsservice* (*aws*—a business funding branch of *Austria's national promotional bank*) and financed by the ministry of economy. A combination of manual, model contracts and checklists for different kinds of contracts are being developed. The starting point was a model contract for R&D collaboration, which is included in the Table.

Broad support for the model contracts and tutorials in development is planned to be obtained by applying the guidelines described in AT.1 and by further involvement of businesses and their lobbying institutions. The model contracts are still a work in progress, but are going to be published one by one on the Internet.[10]

DK.1-4 Johan Schlueter Committee

The Johan Schlueter Committee, supported by the Danish Agency for Science, Technology and Innovation, has outlined five model agreements with 9 to 16 pages. These are tailored for various types of research collaboration: co-financed research collaboration between two or multiple partners, co-financed PhD Study and industrial PhD project.

The model agreements are in English and comprehensive, balanced and flexible as several options for certain modules are offered. The outcome has some similarities to the Lambert Tool Kit (*cf.* above UK.1-5).

Lacking is a regulation for cases where background-IP is required for exploitation of foreground-IP. Joint ownership requests unanimous decisions.

2.2. Single Initiatives

EU.3 EICTA FP7 Consortium Agreement

EICTA,[11] the industry body representing the

9. ipal GmbH assesses and exclusively markets the inventions of Berlin's PROs . *www.ipal.de.*

10. *www.ipag.at.*

11. *www.digitaleurope.org.*

European digital technology industry, published a consortium agreement for integrated projects (IPCA) funded under FP7 in 2007. The model contract was developed by small and large company members like British Telecom and Orange. The EICTA IPCA template was also endorsed by the European digital technology industry. It is an adoption of the model grant agreement by the European Commission and is based on the experience acquired within earlier Framework Programs.

The information specific to the project is covered in the short first part of the agreement. The more generally applicable conditions, defining the roles and duties of each party, the intellectual property rights, liability regimes, and conditions to leave the project or to exploit its outputs are defined in the comprehensive second part. The IPCA template is intended to become the reference contractual model for the European telecommunications, information and consumer electronics industries. Therefore, rules for generated software, dealing with open source software, *etc.*, is an important part of the model contract. Background-IP is listed in the annex only when it's excluded.

DE.8 Hamburg Contract—"Hamburger Vertrag"

The Hamburg Contract was published in 2005 and is a comprehensive model contract for R&D collaboration without any options. A comment to the contract is published.[12] The business partner obtains all rights in a "non-bureaucratic" way and the PRO obtains a capped lump sum covering the research efforts, the IPRs and an inventor's remuneration.

This model contract is more focused on the interest of the business partners than any other reviewed contract in this survey. The PRO is not allowed to publish, apply the results in R&D or teaching, *etc.*, Usually universities limit this kind of approach only to certain services or contract research dealing with incremental improvement of background IP of the business partner.

AT.2-4 Vienna University of Technology

Vienna University of Technology was the first university in Austria to develop a set of model contracts for collaboration with businesses and to make them available to its institutes in 2003.[13] Those contracts were designed and tested in a two-year period on the basis of a vast variety of existing contracts and ongoing negotiations between university-institutes and business-partners. It was a bottom up approach along this line: learning from the experience within university, taking the best-practice modules, complementing missing elements and combining that to slim and flexible model contracts, and finally testing them in negotiations. The model agreements are commented for a clear understanding of all the essential parts to support the scientists' negotiations with companies. Care was taken to use plain language and to keep those contracts easy to understand. The model contracts were revised due to practical experience during negotiations and feedback by business partners of the university. In this respect, those model contracts are to a certain extent accredited by the business partners of the university as several hundreds of business partners—representing a large variety of companies in terms of size, legal structure, origin and industrial sector—have been accepting those non-binding standards with only minor modifications as their own project agreements.

The set of model contracts consists of: a) short contract for a pragmatic approach and rather small project volumes, b) longer version for bi-lateral cooperation with more detailed IP-regulations, c) consortium agreement for multi-partner agreements and involvement of public funding, and d) a contract on measuring and appraisal with no research and development component (this type of contract is not reviewed in this paper).

AT.5 Austrian Research Promotion Agency

The Austrian Research Promotion Agency (FFG) is the national funding institution for applied industrial research in Austria. In several funding programs FFG subsidizes collaborative research. Consortium agreements defining the IP rules are mandatory for obtaining the subsidies. FFG provides a consortium agreement designed for multiple partners. Several comments are included explaining the contract. The model contract is comprehensive. Besides usual components of a collaboration contract, particular consortium aspects are detailed as well, so that the contract—including the comments—ends up having 29 pages.

Not only industry, but also PROs views, are considered. For the FFG special rights are secured which have the potential to delay the commercialization of IPs generated. Gendering of the contract does not simplify its reading. A non-solicitation clause is included which was not found in any other contracts reviewed.

12. *www.hk24.de/produktmarken/innovation/hochschulpolitik/technologietransfer/index.jsp.*

13. At that time a regulation called "limited legal capacity" of the University was still in place in Austria. Institutes of a university had several rights (*e.g.*: employment of additional, project-financed researchers; control of IPR if generated by university's researchers within an externally funded project and not promised beforehand to the business-partner). The management of IPR now—after enactment of new university legislation—since 2004 rests with the university.

AT.7-8 Austrian Federal Economic Chamber of Commerce

As a service and support for its members, the Austrian Federal Chamber of Commerce published in 2009 model contracts for contract research and research collaboration. In 2010 these were updated and extended by a model for a letter of intent, as well as by a model for a non-disclosure agreement for a research collaboration of any kind. The model contracts are commented and accessible to all members of the chamber. Until recently the model contracts have been made available to the public by Lower Austrian Chamber of Commerce.[14]

As PROs have not been involved in the drafting important regulations like those for publications are missing. Other issues like confidentiality, liability and termination are just touched. Regulations are in clear favor of businesses and in this respect to some extent comparable to the Hamburg contracts. The contracts are in the range of 5 pages and easy to read.

A Handbook with 53 pages[15] was published by WIFI,[16] the education and training branch of the Austrian Federal Chamber of Commerce in 2008. Chapter by chapter essential topics and components of a contract are discussed and summarized by corresponding checklists. In addition to the information about the basics, options and advantages of collaboration, it also contains a basic introduction to IPRs, information retrieval, tax issues for inventors, license agreements, *etc*. The handbook is available to the public.

The book is comprehensive, also including handling of personalized data and privacy issues. The IPR part is not very extensive and mostly balanced. Only a few recommendations are dominated by the interests of businesses—which are the financing members of the chamber. In addition the study was supported by the Federal Ministry of Economy, Family and Youth.

FR.1 Federal Ministry of Economy, Industry and Employment

The Federal Ministry of Economy of France and lobbyists of French industry are providing a wealth of information on an Internet platform serving as a guide to intellectual property in centers of excellence. Thorough information is provided via checklists, step-by-step guides, *etc*., giving also reference to other supporting organizations. The platform offers a series of model contracts for R&D collaboration.

The one selected here for review is the model contract for R&D consortia which is comprehensive and well explained. As required for "centers of excellence," rules for running the consortium are defined including standards for employed scientists and prohibition of headhunting the partner's employees. For IPs, several options are offered enabling a flexible approach; *e.g*. joint foreground-IP could be owned by the partner dominant in the field of application of the invention, or by equal shares, or corresponding to the percentage of the work packages agreed upon upfront. Improvement of foreground-IP and corresponding ownership, commercialization of joint foreground-IP by the not generating party, *etc.*, are dealt with.

FR.2-3 CNRS (National Center of Scientific Research)—Consortium Agreement

The National Center for Scientific Research (Centre National de la Recherche Scientifique) is Europe's largest organization for fundamental research. CNRS' annual budget represents a quarter of French public spending on civilian research. As a government-funded research organization, it is under the administrative authority of France's Ministry of Research. In addition to a French version, there is also an English translation of the model contracts provided!

FR.2 is a comprehensive consortium agreement between CNRS and at least one business partner. Rules for running the consortium are defined including standards for employed scientists. For IPs only a few options are offered. The "ownership principle" (*Principe de propriete*) defines that the creator of IP owns it and, in the case of joint creation, it is joint ownership proportionally to each parties' intellectual, human, material and financial contributions, and regulated in a separate contract. Use and exploitation is defined in more detail. Software creation is covered as well.

FR.3 is a contract between several PROs exclusively. Thus the contract is rather short and complete. Again rules for running the consortium are defined (simplified compared to FR.2) and standards for employed scientists are included. The "ownership principle" for IPR is included in the same way as in FR.2. Protection, use and exploitation of IPR are defined, nevertheless it is explicitly stated that the optimization of the publication output has to be favored.

SE.1 Lund University

Lund University is the largest PRO in Scandinavia.

14. *wko.at/wknoe/rp/gesamtangebot_wirtschaftsrecht.htm.*

15. *Kooperationen in Forschung und Entwicklung—Erfolgsfaktoren, Chancen, Tipps & Tricks*, Innovation—Schriftenreihe des Wirtschaftsförderungsinstitutes, Nr. 335, portal.wko.at/wk/dok_detail_file.wk?AngID=1&DocID=813485&ConID=305408.

16. Wirtschaftsförderungsinstitut, *www.wifi.at.*

Table 1. Content Found In Explicit Contract Statements

		EU.1	EU.2	EU.3	UK.1
		EC-FP7 (+Annex II)	DESCA Group FP7	EICTA FP7	Lambert Tool Kit
GROUND	1.1 Use of BG for Execution of the Project	FoC, no right to sublic., pos. & neg. (1)	FoC, non-excl., no right to sublic., acc. to annex (pos. & neg.) (1)	FoC, non-excl., acc. to annex (neg)	non-excl., no
	1.2 Use of BG for commercial Exploitation of FG generated	no right to sublic., pos. & neg. (1)	non-excl., no right to sublic., acc. to annex (pos. u. neg.) (1)	acc. to anne (neg), subi to sep cont	

To see the remainder of this chart, please visit:

See *http://www.lesi.org/docs/les-novelles-ancillary-content/lesnouvellesarticlebereuter2xclpart2-1211.xls?Status=Master*

The model contract[17] reflects the fact that in Sweden the so called professor's privilege is still in place. Only for contract research is a template with 3 pages published. The "General Terms for Contract Research at Lund University" are integrated into the contract as an appendix with 6 additional pages. Explicitly mentioned is the fact that an additional agreement with the employees involved in the project is required.

SE.2 VINNOVA—Swedish Governmental Agency for Innovation Systems

The VINNOVA Model Agreement for VINN Excellence Centers is designed for collaborative research of a consortium in research centers. IP rules like other common components of R&D collaboration contracts and comments for a better understanding are included extending the contract to 23 pages. In contrast to Swedish universities, service intentions of employees can be claimed by the research center. Therefore, all IP issues including ownership and transfer of background-IP and foreground-IP as well as joint ownership of joint inventions are specified. Also less common approaches are anticipated like the auction of IP if a preferred partner is not interested in a particular IP.

IT.1-3 University of Milano

Like in Sweden the professor's privilege has consequences for the IP management at universities. The University of Milano has adopted the model contract for contract research from the Confederation of Italian Industries and created three variations, for contract research, contract consulting and R&D collaboration with 4 to 6 pages each. IPR topics are hardly covered whereas handling of personalized data and privacy issues are dealt with.

IT.4 Confederation of Italian Industries

The model contract for contract research is focused on management of the project, including financial terms but lacks detailed IP rules—*e.g.* background-IP not even mentioned, remuneration for assignment of foreground to the business partner or inventor's remuneration are not dealt with either.

3. Model Contracts

Various important aspects of the relationship between PRO and industry are analyzed. How different model contracts suggest handling these aspects is shown in the table. Huge differences as well as similarities may be spotted easily by comparison.

Table 1 covers content that can be found in explicit statement(s) in the contract. Implicit regulations that are based on underlying law and regulations, but which are not reflected in the contract's wording, are (usually) omitted in the table.

For simplification certain integral components of a contract that are rather standard—*e.g.* non-disclosure and termination clauses, definitions and assignment of liabilities and warranties—are not covered in detail. Usually these can be agreed upon mutually rather easily and, therefore, are not likely to become show stoppers in general.

There is already a wealth of information and assistance available to PROs and businesses on these issues. Encouraging the regular updating of existing material and its wider dissemination among research communities and businesses will be the key to maximizing the use of the resources which already exist.

Based on the survey lessons learned, recommenda-

17. *www5.lu.se/upload/Juridiskaenheten/GeneralTermsforContractResearch-2009-04-27.doc.*

tions can be drawn in order to assist the development of future initiatives as well as to assist in individual negotiations or phrasing of contracts. The latter may hold true especially in trans-boarder cooperations, if well accepted model contracts of the respective countries are selected to assist in layout and negotiation of the contract.

4. Seven Steps For Facilitation Of Collaborations

Mid- and long-term collaboration is best based on win-win relationships. Achieving win-win situations is a challenge that can be facilitated. The following seven steps are proposed in order to obtain an ideal combination of support measures in the longer run. All of the mentioned steps require a corresponding kick-off and also an ongoing support for sustainable implementation as new people continuously enter the scene and general conditions change over time. Each of the mentioned elements is intended to improve the efficiency and effectivity of negotiations between potential partners. In an adopted way the seven steps could also be applied for direct negotiations of collaborations.

4.1 Clarifying the Positions

PROs and companies do have different cultures, goals, motivations and incentives. Both are working in quite different environments and even the legal obligations are partly different. For the sake of win-win oriented negotiations it is a necessity to clarify and exchange one's views, objectives and "dos and dont's" so that the legitimate interests of the other party are well understood.[18]

4.2 Principles and Basic Rules for IPs

Principles and basic rules of how background- and foreground-IP will be managed, if involved in different forms of collaboration with businesses, need to be developed and implemented in a PRO. Usually this involves a clear definition of different forms of collaboration and of rules for IP generated. Usually all contributions will be considered including the financial contributions, but reflecting the difference between additional costs, amount of overheads and real full costs.

If these principles and rules are already based on a broader agreement or at least on a thorough discussion between PROs and businesses, this can act already as a kind of general term sheet for the set up of contracts. Even if there would be no resources for a follow up resulting in further tools like model contracts, those principles and rules would be of great help on its own.

Best practices on this level would also include rules for avoiding conflict of interests of involved players.[19]

4.3 Checklists

The definition of a list of major issues that usually arise during the arrangement of collaborations is best practice. The issues might be highlighted as bullet points or as questions. Although the answers to those questions might differ quite significantly on a case by case basis, a checklist is usually a good practice for moderating the process of collaboration from its very first beginning to the end of the use of IP generated in a project.

4.4 Model Contracts

In practice hardly any expert starts from scratch if a contract needs to be set up. Frequently, former contracts already closed with a good fit to the actual term sheet negotiated are adapted to that particular case. Therefore, model contracts are of particular help for all those that do not have well drafted contracts in their drawer. This is particularly the case for small and medium sized companies and PROs without dedicated support units or without a lot of expertise within the company. However, larger and experienced organizations also may find model contracts helpful as they can be used to provide referential points for new employees and less experienced contract partners.

For the experts involved in either setting up model contracts or in negotiating single contracts, it is particularly rewarding to discuss issues between PROs and businesses in a wider scope. The discussion generates a deeper understanding of the other party and, therefore, has an end in itself—even if model contracts finally might not be used without adaptions that frequently.

Including informative comments and options by proposing exchangeable modules will increase the flexibility and, therefore, broaden the range of applicability of the model contracts significantly. Of course this has to be done with care in order to avoid confusion or misunderstanding.

Furthermore, in annexes to model contracts proposals might be made *e.g.* for valuation methods,[20]

18. An example for how this can be summarized in the form of a simplified communication can be found in the manual with model contracts of the BMWi Federal Ministry of Economics and Technology on pages, 8-9, *www.bmwi.de/BMWi/Navigation/Service/publikationen,did=342954.html.*

19. *University-industry relationships: benefits and risks*, Joe Sandelin, *Industry & Higher Education*, 24 (2010) 55-62.

20. The Berlin Contracts include a proposal for valuation principles.

procedures facilitating the settlement of disputes by mediation and/or arbitration,[21] *etc*. If all these aspects would be included in a model contract, the length of the model contract might become a challenge. In practice there are a lot of collaborations which are neither long term or of high volume, nor is there any expectation of new IP to be generated. In this sense, practice requires also a pragmatic shortcut for achieving slim contracts, which still fit the project perfectly and can be understood by all involved players.

4.5 Decision Guide

The selection of the right model contract and also the identification of the proper modules can be simplified by a decision guide. In particular for the less experienced reader this facilitates the navigation through the material already provided.

4.6 Training and Education

The better the negotiating partners are informed about the use of the provided material and the options to tailor what each party obtains as a reward for its contributions and payments, the easier it becomes to accomplish win-win agreements. Also case study based trainings on how to negotiate are a very useful complement.

4.7 Active Exchange of Experiences

For professionalization of the interface between PROs and businesses, it is important to obtain access to examples of best practice but also to lessons learned. Organizations like AUTM and LES provide international platforms for an exchange of experience between PROs and businesses. European organizations like ASTP and Proton are focusing on exchange between technology transfer managers. National organizations of PROs or businesses are more suitable for discussion of the national characteristics but usually also lack an exchange between PROs and businesses. Working groups with members coming from PROs and businesses for discussing particular challenges are special occasions for improvement of the relationship.

Cross border collaboration is intensifying significantly and, therefore, awareness about national differences, associated challenges and suitable remedies will be increasingly required. EC and WIPO are running several programs improving the exchange of experience as well as harmonizing approaches in legislation and IP-management. A rather new development is the set-up of national contact points (NCP) in each EU member state according to the recommendations of the EC. As each NCP will report about the national situation and future initiatives this could result in further harmonization.

A more up-to-date approach could also be to use Web 2.0 options within Web-based services in order to encourage discussion between the users and to obtain feedback as well as improvements to services provided for facilitating PRO-business collaboration. ■

Acknowledgement

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Disclaimer

The positions and opinions expressed herein are personal to the authors and not necessarily those of Graz University of Technology, Vienna University of Technology, CEST or BMVIT and any of their employees, agents or partners.

21. Delayed decisions due to a lack of agreement might cause severe problem for IPR exploitation. In case of defining a fair royalty *e.g.* the decision might be outsourced to external and independent experts if negotiations failed within a defined short time period.

22. Federal Ministry for Transport, Innovation and Technology, *www.bmvit.gv.at/en.*

ceived for a national set of contracts. It might also encourage stakeholders, who want to complement their national or institutional set of contract models in order to achieve a better support for IPR-management in collaborations.

With any given set of model contracts one can't expect to apply those contracts to a larger number of projects without any adjustments. Either the special circumstances of the project or one of the cooperation partners will demand for changes. Each cooperation needs specific assessment to find out if and which model contract to choose and which adjustments to be made.

2. Initiatives

The various initiatives screened are classified in the following section as "platform initiatives" and "single initiatives," respectively. In platform initiatives several PROs and businesses were engaged, whereas in case of single initiatives only institutions from either PROs or businesses had the lead. Initiatives of third parties, like a research fund, may be viewed either as platform initiative (e.g. EU.1 to EU.3) or as a single initiative (e.g. AT.5).

2.1. Platform Initiatives

In the case of "platform initiatives," the engagement of both, PROs and businesses, usually goes along with a broader discussion and exchange of different viewpoints over a longer period with the intention to achieve improved awareness and involvement of stakeholders, better education of the interested public, more balanced model contracts dedicated to win-win relations as outcome of the discussions and, eventually a wider application of the final outcome in every day work.

EU European Commission

Since FP6, Consortium Agreements (CA) are mandatory for most FP-funded research projects. The purpose of a CA is to regulate critical aspects of project governance not covered by the grant agreement between the European Commission (EC) and the project consortium. Key aspects covered in CA are typically: (i) the internal organization of the consortium; (ii) the distribution of the EC financial contribution; (iii) liability and confidentiality arrangements between partners; (iv) management of intellectual property and access rights to results (*e.g.* when, and on what terms, should access to results be provided to other partners and their affiliates).

From a variety of different model contracts available, only three were selected as those are used most frequently in practice. Furthermore, due to their wide European publicity, those contracts have a great normative impact on how collaboration contracts are set up, even outside the related programs.

EU.1 Seventh Framework Programme. Model Grant Agreement

The European Commission adopted in 2007 the general model grant agreement to be used in research projects funded under the 7th Framework Program (FP7). This model grant agreement is applicable to the indirect actions under the Specific Programs 'Cooperation' and 'Capacities' of FP7. It consists of a core text and several annexes. In annex II all relevant IPR provisions are described. In particular rules concerning foreground-IP and assignments are specified in detail. The provision that assignment of IP to a recipient outside of the EU requires approval by the EC seems worth mentioning. Also very particular is the provision, that access rights to foreground have to be granted to partners if they need it for use of their own foreground. In DESCA (*cf.* below) there are options to specify if those are granted on fair and reasonable conditions or on a royalty-free basis. There is also a list of special clauses to be introduced in the grant agreement whenever appropriate.

The original language of the grant agreement and its annexes is English. The translations into the other community languages are provided to facilitate the understanding of the grant agreement and its annexes. The translations are not legally binding and are not officially approved.

Both, the DESCA Group FP7 Consortium Agreement and EICTA FP7 Consortium Agreement, which are discussed below, refer to annex II of the model grant agreement.

EU.2 DESCA Group FP7 Consortium Agreement

DESCA, **DE**velopment of a **S**implified **C**onsortium **A**greement, is a comprehensive, modular consortium agreement for FP7; initiated by key FP7 stakeholder groups,[3] and co-developed with the FP community. It seeks to balance the interests of the main participant categories in FP research projects: large and small firms, universities, public research institutes, *etc*., in the spirit of Responsible Partnering.[4] Moreover DESCA is also a simplified consortium agreement compared to many of the FP6 models in both content and language. Therefore, it is enjoying a broad support within the FP community.

3. DESCA was initiated by ANRT (*www.anrt.asso.fr*), the German CA-Team (represented by Helmholtz—*www.helmholtz.de* and KoWi—*www.kowi.de*), EARTO (*www.earto.eu*), Eurochambres (*www.eurochambres.be*), and UNITE (*www.unite.be*).

4. *www.responsible-partnering.org.*

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The resulting Lambert-Agreements are representing various approaches to IP ownership, management and exploitation rights including ownership of the IP by the university with non-exclusive licensing or exclusive licensing to industry for voluntary use by business and universities up to nearly unrestricted ownership of the business partner:

UK.1—the University owns the IP in the research results and grants a non-exclusive license to the company sponsor allowing the use of the results in a specified field and/or territory.

UK.2—the University owns the IP in the research results and licenses to the company sponsor the use of the results in a specified field and/or territory, but the company sponsor has a right to negotiate an exclusive license regarding certain results.

UK.3—the University owns the IP in the research results and licenses to the company sponsor the use of the results in a specified field and/or territory and the company sponsor has a right to negotiate the assignment of the IPRs in some of the results.

UK.4—the company sponsor owns the IP in the research results, but some rights are reserved to allow the University to use the results for academic purposes (including academic publication) on certain conditions (protecting the confidentiality of the company sponsor's data; avoiding jeopardizing the option for the company sponsor obtaining patent protection).

UK.5—the company sponsor owns the IP in the research results, and the University has no right to publish the results.

The model agreements typically have between 11 and 14 pages. They are commented and, based on a questionnaire based guide, selection of the most suitable type is supported.

The content of the suggested contracts are quite complete–however regulations about background-IP required for commercialization of foreground-IP and regulations about inventor's remuneration are missing.

DE.1-4 Model Contracts by the Federal Ministry of Economics and Technology

The Federal Ministry of Economics and Technology (BMWI) in Germany initiated a working group in order to summarize existing model contracts. On that basis four bilateral model contracts with 10 to 15 pages each were elaborated: two for contract research (options: IP-licensing or -assignment), one each for research collaboration and service contract. In addition these model contracts are compared to other initiatives in Germany. The final outcome was published in a booklet of 80 pages in 2007. It was updated in 2010 to consider the lessons learned as well as the Community Framework for State Aid for Research and Development and Innovation and new legislation relating to the inventor's remuneration.

Several regulations are in clear favor of businesses (*e.g.* publications require a twofold request till they can be published; compensation for IP needs to be calculated within the project costs, background IP

5. Lambert Review of Business-University Collaboration: *www.hm-treasury.gov.uk/d/lambert_review_final_450.pdf.*

6. *www.innovation.gov.uk/lambertagreements.*

7. PraxisUnico is an educational not-for-profit organization set up to support innovation and commercialization of public sector and charity research for social and economic impact. www.praxisunico.org.uk.

8. Department for Innovation, Universities and Skills was merged 2009 with the Department for Business, Enterprise and Regulatory Reform creating BIS The Department for Business, Innovation and Skills *www.bis.gov.uk.*

required for commercialization has to be free).

DE.5-6 Berlin Contracts—"Berliner Verträge"

Universities in Berlin and their patent commercialization agency ipal GmbH[9] in cooperation with industry (represented by companies like BASF, Bayer AG, Robert Bosch, DaimlerChrysler, Deutsche Telekom, Rolls-Royce, Schering) elaborated model contracts for contract research and research collaboration. The first edition was published in 2002, updated with the lessons learned in 2007. The Berlin Contracts have formed the initial starting point for the model contracts by the Federal Ministry of Economics and Technology (DE.1-4; *cf.* above).

In order to differentiate contract research and research collaboration, a list of evidences is provided that facilitates the classification. Furthermore a comparison shows the differences between the modules of the contracts. For certain issues alternative options are provided (*e.g.* compensation, invention disclosure). A guideline for calculation of the compensation is added as well.

The clear focus on IP topics results in the lack of issues that are usually part of a contract like warranty, confidentiality, rescission, *etc.*, but those issues hardly become show stoppers. The spirit of the model contract is that PROs and business are treated as equal partners and therefore wording is balanced.

DE.7 Contract Workshop Düsseldorf—"Düsseldorfer Vertragswerkstatt"

The Contract Workshop Düsseldorf is a cooperation of the Centre of Intellectual Property and the technology transfer unit at the Heinrich Heine University Düsseldorf, which is supported by the patent commercialization agency PROvendis. Other higher education institutions and businesses of different branches are integrated by interviews and questionnaires, but also by involving the lobbyists of businesses.

The initiative started in 2004 and published in 2008 the fourth edition of optional modules for model contracts and in 2006 its revised version of an R&D collaboration contract.

The Düsseldorf contract is comprehensive, balanced and, due to the various options, broadly applicable. Nevertheless the contract with 8 pages stayed rather short.

AT.1 Graz University of Technology & Federation of Styrian Industries

Model contracts were developed based on the guidelines developed together with industry and coordinated by the Federation of Styrian Industries. Covered in the table is one corresponding model contract for research collaboration that implements the option which is chosen most frequently: In case of contract research IPR is transferred to the business partner and the IP is prepaid by a lump sum to the PRO, independent of the facts if IP is generated and what its potential might be. The inventor's remuneration, depending on the economic success of an invention, is financed without any cap by the business partner in addition to the lump sum.

AT.6 IPAG Intellectual Property Agreement Guide

IPAG Intellectual Property Agreement Guide is an initiative of several Austrian universities facilitated by the patent and licensing management division of *austria wirtschaftsservice* (*aws*—a business funding branch of *Austria's national promotional bank*) and financed by the ministry of economy. A combination of manual, model contracts and checklists for different kinds of contracts are being developed. The starting point was a model contract for R&D collaboration, which is included in the Table.

Broad support for the model contracts and tutorials in development is planned to be obtained by applying the guidelines described in AT.1 and by further involvement of businesses and their lobbying institutions. The model contracts are still a work in progress, but are going to be published one by one on the Internet.[10]

DK.1-4 Johan Schlueter Committee

The Johan Schlueter Committee, supported by the Danish Agency for Science, Technology and Innovation, has outlined five model agreements with 9 to 16 pages. These are tailored for various types of research collaboration: co-financed research collaboration between two or multiple partners, co-financed PhD Study and industrial PhD project.

The model agreements are in English and comprehensive, balanced and flexible as several options for certain modules are offered. The outcome has some similarities to the Lambert Tool Kit (*cf.* above UK.1-5).

Lacking is a regulation for cases where background-IP is required for exploitation of foreground-IP. Joint ownership requests unanimous decisions.

2.2. Single Initiatives

EU.3 EICTA FP7 Consortium Agreement

EICTA,[11] the industry body representing the

9. ipal GmbH assesses and exclusively markets the inventions of Berlin's PROs . *www.ipal.de.*

10. *www.ipag.at.*

11. *www.digitaleurope.org.*

European digital technology industry, published a consortium agreement for integrated projects (IPCA) funded under FP7 in 2007. The model contract was developed by small and large company members like British Telecom and Orange. The EICTA IPCA template was also endorsed by the European digital technology industry. It is an adoption of the model grant agreement by the European Commission and is based on the experience acquired within earlier Framework Programs.

The information specific to the project is covered in the short first part of the agreement. The more generally applicable conditions, defining the roles and duties of each party, the intellectual property rights, liability regimes, and conditions to leave the project or to exploit its outputs are defined in the comprehensive second part. The IPCA template is intended to become the reference contractual model for the European telecommunications, information and consumer electronics industries. Therefore, rules for generated software, dealing with open source software, *etc.*, is an important part of the model contract. Background-IP is listed in the annex only when it's excluded.

DE.8 Hamburg Contract—"Hamburger Vertrag"

The Hamburg Contract was published in 2005 and is a comprehensive model contract for R&D collaboration without any options. A comment to the contract is published.[12] The business partner obtains all rights in a "non-bureaucratic" way and the PRO obtains a capped lump sum covering the research efforts, the IPRs and an inventor's remuneration.

This model contract is more focused on the interest of the business partners than any other reviewed contract in this survey. The PRO is not allowed to publish, apply the results in R&D or teaching, *etc.*, Usually universities limit this kind of approach only to certain services or contract research dealing with incremental improvement of background IP of the business partner.

AT.2-4 Vienna University of Technology

Vienna University of Technology was the first university in Austria to develop a set of model contracts for collaboration with businesses and to make them available to its institutes in 2003.[13] Those contracts were designed and tested in a two-year period on the basis of a vast variety of existing contracts and ongoing negotiations between university-institutes and business-partners. It was a bottom up approach along this line: learning from the experience within university, taking the best-practice modules, complementing missing elements and combining that to slim and flexible model contracts, and finally testing them in negotiations. The model agreements are commented for a clear understanding of all the essential parts to support the scientists' negotiations with companies. Care was taken to use plain language and to keep those contracts easy to understand. The model contracts were revised due to practical experience during negotiations and feedback by business partners of the university. In this respect, those model contracts are to a certain extent accredited by the business partners of the university as several hundreds of business partners—representing a large variety of companies in terms of size, legal structure, origin and industrial sector—have been accepting those non-binding standards with only minor modifications as their own project agreements.

The set of model contracts consists of: a) short contract for a pragmatic approach and rather small project volumes, b) longer version for bi-lateral cooperation with more detailed IP-regulations, c) consortium agreement for multi-partner agreements and involvement of public funding, and d) a contract on measuring and appraisal with no research and development component (this type of contract is not reviewed in this paper).

AT.5 Austrian Research Promotion Agency

The Austrian Research Promotion Agency (FFG) is the national funding institution for applied industrial research in Austria. In several funding programs FFG subsidizes collaborative research. Consortium agreements defining the IP rules are mandatory for obtaining the subsidies. FFG provides a consortium agreement designed for multiple partners. Several comments are included explaining the contract. The model contract is comprehensive. Besides usual components of a collaboration contract, particular consortium aspects are detailed as well, so that the contract—including the comments—ends up having 29 pages.

Not only industry, but also PROs views, are considered. For the FFG special rights are secured which have the potential to delay the commercialization of IPs generated. Gendering of the contract does not simplify its reading. A non-solicitation clause is included which was not found in any other contracts reviewed.

12. *www.hk24.de/produktmarken/innovation/hochschulpolitik/technologietransfer/index.jsp.*

13. At that time a regulation called "limited legal capacity" of the University was still in place in Austria. Institutes of a university had several rights (*e.g.*: employment of additional, project-financed researchers; control of IPR if generated by university's researchers within an externally funded project and not promised beforehand to the business-partner). The management of IPR now—after enactment of new university legislation—since 2004 rests with the university.

AT.7-8 Austrian Federal Economic Chamber of Commerce

As a service and support for its members, the Austrian Federal Chamber of Commerce published in 2009 model contracts for contract research and research collaboration. In 2010 these were updated and extended by a model for a letter of intent, as well as by a model for a non-disclosure agreement for a research collaboration of any kind. The model contracts are commented and accessible to all members of the chamber. Until recently the model contracts have been made available to the public by Lower Austrian Chamber of Commerce.[14]

As PROs have not been involved in the drafting important regulations like those for publications are missing. Other issues like confidentiality, liability and termination are just touched. Regulations are in clear favor of businesses and in this respect to some extent comparable to the Hamburg contracts. The contracts are in the range of 5 pages and easy to read.

A Handbook with 53 pages[15] was published by WIFI,[16] the education and training branch of the Austrian Federal Chamber of Commerce in 2008. Chapter by chapter essential topics and components of a contract are discussed and summarized by corresponding checklists. In addition to the information about the basics, options and advantages of collaboration, it also contains a basic introduction to IPRs, information retrieval, tax issues for inventors, license agreements, *etc*. The handbook is available to the public.

The book is comprehensive, also including handling of personalized data and privacy issues. The IPR part is not very extensive and mostly balanced. Only a few recommendations are dominated by the interests of businesses—which are the financing members of the chamber. In addition the study was supported by the Federal Ministry of Economy, Family and Youth.

FR.1 Federal Ministry of Economy, Industry and Employment

The Federal Ministry of Economy of France and lobbyists of French industry are providing a wealth of information on an Internet platform serving as a guide to intellectual property in centers of excellence. Thorough information is provided via checklists, step-by-step guides, *etc*., giving also reference to other supporting organizations. The platform offers a series of model contracts for R&D collaboration.

The one selected here for review is the model contract for R&D consortia which is comprehensive and well explained. As required for "centers of excellence," rules for running the consortium are defined including standards for employed scientists and prohibition of headhunting the partner's employees. For IPs, several options are offered enabling a flexible approach; *e.g*. joint foreground-IP could be owned by the partner dominant in the field of application of the invention, or by equal shares, or corresponding to the percentage of the work packages agreed upon upfront. Improvement of foreground-IP and corresponding ownership, commercialization of joint foreground-IP by the not generating party, *etc.*, are dealt with.

FR.2-3 CNRS (National Center of Scientific Research)—Consortium Agreement

The National Center for Scientific Research (Centre National de la Recherche Scientifique) is Europe's largest organization for fundamental research. CNRS' annual budget represents a quarter of French public spending on civilian research. As a government-funded research organization, it is under the administrative authority of France's Ministry of Research. In addition to a French version, there is also an English translation of the model contracts provided!

FR.2 is a comprehensive consortium agreement between CNRS and at least one business partner. Rules for running the consortium are defined including standards for employed scientists. For IPs only a few options are offered. The "ownership principle" (*Principe de propriete*) defines that the creator of IP owns it and, in the case of joint creation, it is joint ownership proportionally to each parties' intellectual, human, material and financial contributions, and regulated in a separate contract. Use and exploitation is defined in more detail. Software creation is covered as well.

FR.3 is a contract between several PROs exclusively. Thus the contract is rather short and complete. Again rules for running the consortium are defined (simplified compared to FR.2) and standards for employed scientists are included. The "ownership principle" for IPR is included in the same way as in FR.2. Protection, use and exploitation of IPR are defined, nevertheless it is explicitly stated that the optimization of the publication output has to be favored.

SE.1 Lund University

Lund University is the largest PRO in Scandinavia.

14. *wko.at/wknoe/rp/gesamtangebot_wirtschaftsrecht.htm.*

15. *Kooperationen in Forschung und Entwicklung—Erfolgsfaktoren, Chancen, Tipps & Tricks*, Innovation—Schriftenreihe des Wirtschaftsförderungsinstitutes, Nr. 335, portal.wko.at/wk/dok_detail_file.wk?AngID=1&DocID=813485&ConID=305408.

16. Wirtschaftsförderungsinstitut, *www.wifi.at.*

Table 1. Content Found In Explicit Contract Statements

		EU.1	EU.2	EU.3	UK.1
		EC-FP7 (+Annex II)	DESCA Group FP7	EICTA FP7	Lambert Tool Kit
GROUND	1.1 Use of BG for Execution of the Project	FoC, no right to sublic., pos. & neg. (1)	FoC, non-excl., no right to sublic., acc. to annex (pos. & neg.) (1)	FoC, non-excl., acc. to annex (neg)	non-excl., no
	1.2 Use of BG for commercial Exploitation of FG generated	no right to sublic., pos. & neg. (1)	non-excl., no right to sublic., acc. to annex (pos. u. neg.) (1)	acc. to anne (neg), subi to sep cont	

To see the remainder of this chart, please visit:

See *http://www.lesi.org/docs/les-novelles-ancillary-content/lesnouvellesarticlebereuter2xclpart2-1211.xls?Status=Master*

The model contract[17] reflects the fact that in Sweden the so called professor's privilege is still in place. Only for contract research is a template with 3 pages published. The "General Terms for Contract Research at Lund University" are integrated into the contract as an appendix with 6 additional pages. Explicitly mentioned is the fact that an additional agreement with the employees involved in the project is required.

SE.2 VINNOVA—Swedish Governmental Agency for Innovation Systems

The VINNOVA Model Agreement for VINN Excellence Centers is designed for collaborative research of a consortium in research centers. IP rules like other common components of R&D collaboration contracts and comments for a better understanding are included extending the contract to 23 pages. In contrast to Swedish universities, service intentions of employees can be claimed by the research center. Therefore, all IP issues including ownership and transfer of background-IP and foreground-IP as well as joint ownership of joint inventions are specified. Also less common approaches are anticipated like the auction of IP if a preferred partner is not interested in a particular IP.

IT.1-3 University of Milano

Like in Sweden the professor's privilege has consequences for the IP management at universities. The University of Milano has adopted the model contract for contract research from the Confederation of Italian Industries and created three variations, for contract research, contract consulting and R&D collaboration with 4 to 6 pages each. IPR topics are hardly covered whereas handling of personalized data and privacy issues are dealt with.

IT.4 Confederation of Italian Industries

The model contract for contract research is focused on management of the project, including financial terms but lacks detailed IP rules—*e.g.* background-IP not even mentioned, remuneration for assignment of foreground to the business partner or inventor's remuneration are not dealt with either.

3. Model Contracts

Various important aspects of the relationship between PRO and industry are analyzed. How different model contracts suggest handling these aspects is shown in the table. Huge differences as well as similarities may be spotted easily by comparison.

Table 1 covers content that can be found in explicit statement(s) in the contract. Implicit regulations that are based on underlying law and regulations, but which are not reflected in the contract's wording, are (usually) omitted in the table.

For simplification certain integral components of a contract that are rather standard—*e.g.* non-disclosure and termination clauses, definitions and assignment of liabilities and warranties—are not covered in detail. Usually these can be agreed upon mutually rather easily and, therefore, are not likely to become show stoppers in general.

There is already a wealth of information and assistance available to PROs and businesses on these issues. Encouraging the regular updating of existing material and its wider dissemination among research communities and businesses will be the key to maximizing the use of the resources which already exist.

Based on the survey lessons learned, recommenda-

17. *www5.lu.se/upload/Juridiskaenheten/GeneralTermsforContractResearch-2009-04-27.doc.*

tions can be drawn in order to assist the development of future initiatives as well as to assist in individual negotiations or phrasing of contracts. The latter may hold true especially in trans-boarder cooperations, if well accepted model contracts of the respective countries are selected to assist in layout and negotiation of the contract.

4. Seven Steps For Facilitation Of Collaborations

Mid- and long-term collaboration is best based on win-win relationships. Achieving win-win situations is a challenge that can be facilitated. The following seven steps are proposed in order to obtain an ideal combination of support measures in the longer run. All of the mentioned steps require a corresponding kick-off and also an ongoing support for sustainable implementation as new people continuously enter the scene and general conditions change over time. Each of the mentioned elements is intended to improve the efficiency and effectivity of negotiations between potential partners. In an adopted way the seven steps could also be applied for direct negotiations of collaborations.

4.1 Clarifying the Positions

PROs and companies do have different cultures, goals, motivations and incentives. Both are working in quite different environments and even the legal obligations are partly different. For the sake of win-win oriented negotiations it is a necessity to clarify and exchange one's views, objectives and "dos and dont's" so that the legitimate interests of the other party are well understood.[18]

4.2 Principles and Basic Rules for IPs

Principles and basic rules of how background- and foreground-IP will be managed, if involved in different forms of collaboration with businesses, need to be developed and implemented in a PRO. Usually this involves a clear definition of different forms of collaboration and of rules for IP generated. Usually all contributions will be considered including the financial contributions, but reflecting the difference between additional costs, amount of overheads and real full costs.

If these principles and rules are already based on a broader agreement or at least on a thorough discussion between PROs and businesses, this can act already as a kind of general term sheet for the set up of contracts. Even if there would be no resources for a follow up resulting in further tools like model contracts, those principles and rules would be of great help on its own.

Best practices on this level would also include rules for avoiding conflict of interests of involved players.[19]

4.3 Checklists

The definition of a list of major issues that usually arise during the arrangement of collaborations is best practice. The issues might be highlighted as bullet points or as questions. Although the answers to those questions might differ quite significantly on a case by case basis, a checklist is usually a good practice for moderating the process of collaboration from its very first beginning to the end of the use of IP generated in a project.

4.4 Model Contracts

In practice hardly any expert starts from scratch if a contract needs to be set up. Frequently, former contracts already closed with a good fit to the actual term sheet negotiated are adapted to that particular case. Therefore, model contracts are of particular help for all those that do not have well drafted contracts in their drawer. This is particularly the case for small and medium sized companies and PROs without dedicated support units or without a lot of expertise within the company. However, larger and experienced organizations also may find model contracts helpful as they can be used to provide referential points for new employees and less experienced contract partners.

For the experts involved in either setting up model contracts or in negotiating single contracts, it is particularly rewarding to discuss issues between PROs and businesses in a wider scope. The discussion generates a deeper understanding of the other party and, therefore, has an end in itself—even if model contracts finally might not be used without adaptions that frequently.

Including informative comments and options by proposing exchangeable modules will increase the flexibility and, therefore, broaden the range of applicability of the model contracts significantly. Of course this has to be done with care in order to avoid confusion or misunderstanding.

Furthermore, in annexes to model contracts proposals might be made *e.g.* for valuation methods,[20]

18. An example for how this can be summarized in the form of a simplified communication can be found in the manual with model contracts of the BMWi Federal Ministry of Economics and Technology on pages, 8-9, *www.bmwi.de/BMWi/Navigation/Service/publikationen,did=342954.html.*

19. *University-industry relationships: benefits and risks*, Joe Sandelin, *Industry & Higher Education*, 24 (2010) 55-62.

20. The Berlin Contracts include a proposal for valuation principles.

procedures facilitating the settlement of disputes by mediation and/or arbitration,[21] *etc*. If all these aspects would be included in a model contract, the length of the model contract might become a challenge. In practice there are a lot of collaborations which are neither long term or of high volume, nor is there any expectation of new IP to be generated. In this sense, practice requires also a pragmatic shortcut for achieving slim contracts, which still fit the project perfectly and can be understood by all involved players.

4.5 Decision Guide

The selection of the right model contract and also the identification of the proper modules can be simplified by a decision guide. In particular for the less experienced reader this facilitates the navigation through the material already provided.

4.6 Training and Education

The better the negotiating partners are informed about the use of the provided material and the options to tailor what each party obtains as a reward for its contributions and payments, the easier it becomes to accomplish win-win agreements. Also case study based trainings on how to negotiate are a very useful complement.

4.7 Active Exchange of Experiences

For professionalization of the interface between PROs and businesses, it is important to obtain access to examples of best practice but also to lessons learned. Organizations like AUTM and LES provide international platforms for an exchange of experience between PROs and businesses. European organizations like ASTP and Proton are focusing on exchange between technology transfer managers. National organizations of PROs or businesses are more suitable for discussion of the national characteristics but usually also lack an exchange between PROs and businesses. Working groups with members coming from PROs and businesses for discussing particular challenges are special occasions for improvement of the relationship.

Cross border collaboration is intensifying significantly and, therefore, awareness about national differences, associated challenges and suitable remedies will be increasingly required. EC and WIPO are running several programs improving the exchange of experience as well as harmonizing approaches in legislation and IP-management. A rather new development is the set-up of national contact points (NCP) in each EU member state according to the recommendations of the EC. As each NCP will report about the national situation and future initiatives this could result in further harmonization.

A more up-to-date approach could also be to use Web 2.0 options within Web-based services in order to encourage discussion between the users and to obtain feedback as well as improvements to services provided for facilitating PRO-business collaboration. ■

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Disclaimer

The positions and opinions expressed herein are personal to the authors and not necessarily those of Graz University of Technology, Vienna University of Technology, CEST or BMVIT and any of their employees, agents or partners.

21. Delayed decisions due to a lack of agreement might cause severe problem for IPR exploitation. In case of defining a fair royalty *e.g.* the decision might be outsourced to external and independent experts if negotiations failed within a defined short time period.

22. Federal Ministry for Transport, Innovation and Technology, *www.bmvit.gv.at/en.*

The Role Of R&D Agreements Under German And EU Law–Practical Guidelines Under Contract, Tax, Anti-Trust & Subsidy Law

Part 1

By Christian Czychowski, Heinz Goddar, Annette Keller and Dirk Pohl

I. The Role of R&D Agreements in Business

1. Technology Transfer in General and R&D

Innovation is the driving force in a globalized world, securing growth and employment. The success of many businesses depends on their ability to present innovative products. As the cycles of innovation are getting shorter, the role of research and development is getting more important. A high level of dynamism is necessary to meet the challenges of the so called "knowledge society."

Not all businesses have the facilities and manpower for their own research and development department. Companies that do operate such a department experience that its capacities are often limited, especially in peak times. In all cases, it is promising to take advantage of the creativity and know-how of third parties.

Universities and research facilities, which are often well-equipped and staffed with well-trained people, benefit from exploiting their research results and from generating additional funds by conducting research series for companies. In general, the efficiency of newly developed technologies is increased by technology transfer and cooperation.

"Outsourcing" research and development on the other hand increases the legal and administrative work. Especially smaller entities, companies and universities alike, might refrain from R&D Agreements because of the legal risks involved. Publications and standard forms are rare. Support from specialised attorneys is recommendable, but expensive and often does not replace a self understanding of the matter.

In Germany, new model contracts for R&D Agreements between universities and private companies have been developed by a working group of the Federal Ministry of Economics and Technology (BMWi).[1] They help to set up flexible contracts for many different purposes. However, the terms of these agreements might be adopted for use in different jurisdictions. But even if these model contracts are not used, legal experts, scientists and administrators might get some helpful hints on what to consider when planning a joint R&D project.

2. The Different Players in R&D Agreements

In R&D Agreements, usually two or more institutions are involved that pursue different interests. For a successful cooperation, it is important to understand the incitements of the respective partner.

a) Universities

Germany's higher education landscape is dominated by public universities. Private colleges are rare and often struggle even more with financial problems than universities primarily funded by the state.

As public universities serve a public purpose, many of the German states' Higher Education Acts[2] mandate them to technology transfer. However, they are not mandated to create inventions. When cooperating with third parties, inventions are an additional value, adding to the research and development work that was agreed upon. German laws assign the right to acquire inventions made by employees of universities to the latter. However, the constitutional freedom of research and teaching (Art 8, para. 5 of the German Basic Law) includes the freedom of publication. "Negative" freedom of publication means that a professor may choose not to publish a research result or reveal an invention to the university. These provisions have to be reflected in contractual agreements. Partners of industrial cooperation partners of universities are usually secured by a right of first negotiation for exclusive rights.

In order to obtain a favourable intellectual capital,

1. The model contracts can be downloaded in German only at: *http://lexikon.bmwi.de/Dateien/BMWi/PDF/mustervereinbarungen-fuer-forschungs-und-entwicklungskooperationen,property=pdf,bereich=bmwi,sprache=de,rwb=true.pdf.*

2. See, for example, Sec. 3 para 7 HG of Brandenburg; Sec. 2 para 5 HG of Bavaria; Sec. 3 para 1 HG of North Rhine-Westphalia.

universities are interested in filing patent applications at least jointly with industrial partners. It is necessary for them to build up and maintain their own patent portfolio, making them attractive for new R&D co-operations and to allow start-ups, creating new and innovative job opportunities.

Industrial partners also have to understand that universities have a fiduciary duty which might be violated if they negotiate disproportionate T&C's on behalf of their employees.

The experience of universities to deal with R&D Agreements depends on their size. Large universities often employ legal and patent experts; smaller ones may not have drawn their attention to contract management on a larger scale yet. Also, the awareness of exploiting inventions and applying for patents differs from university to university, both large and small ones.

b) Public Research Facilities Outside Universities

Facilities especially designed to conduct researches and without an educational purpose are often more flexible than universities. For example, they are not bound by special inventor regulations for universities in Germany and therefore can treat their scientists regarding inventions like employees of a private company (with many of them granting their scientists a larger share of the royalties than private companies).

However, research institutes also put a large emphasis on their employees' freedom of scientific research and publication. Many of them reserve their rights to patent application and will not license their inventions for free. More than universities, research facilities are aware of the exploitation possibilities and regularly employ legal and/or patent experts.

Important German research organizations operating a large number of research institutes include the famous Fraunhofer Gesellschaft,[3] the Max Planck Gesellschaft[4] as well as the Helmholtz[5]-and Leibniz-Gemeinschaft.[6] These organizations are basically funded by the German state. The Netherlands Organization for Applied Scientific Research (TNO),[7] the Technical Research Center of Finland (VTT),[8] the French National Center of Scientific Research (CNRS)[9] and the Spanish National Research Council (CSIC)[10] are examples of other large European research organizations that are state-funded or state-dependent.

Other research facilities are solely privately funded, most often by foundations, non-profit organisations or private companies. They may run state-funded projects, but do not receive basic funding from the state. Usually smaller in size, their experience with R&D cooperation varies.

c) R&D Departments in Private Companies, SMEs

The industrial partners of R&D Agreements are represented by separate R&D departments of large companies or by small and medium enterprises themselves. Accordingly, the level of experience with cooperation varies.

As the risk of realization and the financing of the research project are most often borne by the ordering party, the industry has a genuine interest in obtaining as many rights as possible. Within a clarified research assignment, the contracting companies do not want to pay a remuneration that depends on the number of inventions made. When cooperating, research facilities are regarded as an "extended workbench" that owes a certain result.

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d) Private Inventors

Independent inventors that are not employed by a research facility or a private company seem to be a dying breed. With technology becoming more and more complex, it seems to be almost impossible to maintain the equipment and to spend the time needed for research. However, if a company is convinced of the knowledge and inventive talent of a single person or a network of persons, it may prefer cooperating with them rather than with a research facility. Especially in the software branch, the creativity of individuals is not underestimated anymore.

Private inventors most often do not have a substantial legal background and therefore are in a weaker position for negotiations with industrial partners.

3. *http://www.fraunhofer.de/*
4. *http://www.mpg.de/*
5. *http://www.helmholtz.de/*
6. *http://www.leibniz-gemeinschaft.de/*
7. *http://www.tno.nl/index.cfm?Taal=2*
8. *http://www.vtt.fi/*
9. *http://www.cnrs.fr/index.php*
10. *http://www.csic.es/web/guest/home*

Furthermore, legal restrictions like the German Employee Invention Act, do not apply. The incentives of these individuals may be very different. For some, the financial aspect may be the most important one, for others it is the reputation of a joint application.

3. State Funded Projects vs. Private R&D

As long as an R&D cooperation is exclusively financed with private capital by the partners, they do not have to pay attention to any other interests. Private funding remains the main source for R&D projects. However, R&D is expensive and partners would not abandon the option to have a significant part of the project funded by other institutions. In many cases, public money can make the difference to start a cost-extensive project.

In Germany, most R&D projects are state-funded in one way or the other; about one third of the overall investments in R&D are financed by taxes.[11] While the expenses for state-funded research facilities remain to be the major part of R&D expenses in Germany, funding for private projects is on the rise. Especially the Federal Ministry for Education and Research (BMBF) is running several funding programs that allow private companies to co-finance important projects. The federal government alone has provided more than 4 billion EUR annually for project funding. An emphasis is put on the promotion of small and medium enterprises. Despite a fundamental budget crisis, Germany managed to increase the expenses for R&D within the past years and is on its way to meet the "Lisbon goal" of spending 3 percent of GDP for R&D investment by the end of 2010.[12]

On a smaller scale, the European Union is running its "Seventh Framework Programme 2007-2013."[13] For the entire European Union, 50.5 billion EUR are provided over the six-year course. While the budget is 41 percent higher than for its 2002-2007 predecessor, it also covers a wider range of subject areas. The major part of the funding is designated to the programme "Cooperation" which supports cross-border projects focussing on usability of the results.

Most often, funds provided for R&D projects do not have to be paid back, even if the results can be exploited successfully. Partners of an R&D project will therefore automatically think about this attractive subsidy in an early stage of the project planning. Authorities usually provide counselling on funding programs and help to find a suitable funding programme. However, it will also be decisive to study its terms and conditions, as state-funded projects follow their own rules and may limit the partners' freedoms in some areas.

II. Different Types of R&D Agreements

In order to design the most suitable contract for all partners, each party will have to define its goals. R&D cooperation may have very different faces. Especially the level of true cooperation and the certainty of results vary a lot. According to these differences, there are three main types of R&D Agreements. While every cooperation is unique and may vary in detail from the types explained below, this classification should help the partners to choose a suitable standard contract to begin negotiations on the basis thereof.

1. Contracts for Works and Services

If an industrial partner commissions a university (or other research facility) to carry out certain research work, with an unambiguous, known objective and laying down a defined way of performing that work, the university will generally demand that the entire costs be assumed. The university, in the person of the research worker (here and in the following usually understood to mean the responsible "project director"), is not required to interpret data or results in anyway; neither the university nor the industrial partner has any interest whatsoever in publication. The results of a contract for work and services of this kind is an obligation owed by the university to the industrial partner. In this case, all the results of the research, including any inventions that might be made by the university, *i.e.* by the research worker or by any other member of the university, belong to the industrial partner without any additional remuneration. It is the latter which decides at its own discretion whether to file applications for any industrial property rights, to engage in exploitation actions, *etc.* It goes without saying that any applications for industrial property rights are filed by the industrial partner exclusively in its own name, without any right whatsoever on the part of the university to participate.

2. Research Commissions

In the context of research commissions, the industrial partner places a targeted commission with the university (or other research facility) to carry out certain research work, the result of which is nevertheless open, but the way of performing that work and the purpose of the study are defined. In this case, too, the university will expect the entire costs to be

11. See the Report on "Research and Innovation in Germany 2006", which can be downloaded at *http://www.bmbf.de/pub/research_and_innovation_2006.pdf.*

12. See COM/2002/499—"More Research for Europe—Towards 3% of GDP".

13. See *http://cordis.europa.eu/fp7/home_en.html for further information.*

assumed by the industry partner. The data or results have to be interpreted by the research worker. The industrial partner, having placed the commission, will as a rule be interested in receiving the results at short notice or at least on schedule. The university, or the research worker, for their part have an interest in seeing the results published. In this case, no successful result is owed by the university. The university has a fundamental right to remuneration for any invention. The rights in the inventions concerned, including the right to file the first application and to carry out subsequent applications in other countries, need to be settled in detail.

3. Research Cooperation

In the case of research cooperation, the industrial partner places a research commission with the university (or other research facility), the objectives and the results being open; the implementation is not defined in detail, and the intended practical application is neither known in detail nor definitely laid down. Both partners, *i.e.* the university and the industrial partner, contribute to carrying out the research project on which they are cooperating by providing personnel and/or assuming a share of the costs. The industrial partner, having placed the commission, has a medium to long-term interest in the outcome, both partners have a pronounced—and possibly a joint—interest in publishing the results. In this case, the university has no obligation vis-à-vis the industrial partner regarding the success of the research cooperation agreement. The industrial partner has a separate obligation to remunerate the university for any invention, the details of which need to be settled depending on the situation, as do the filing rights with regard to patents, etc.

III. R&D Legislation, Regulation and Other Directives

The law in Germany does not provide special provisions on R&D Agreements. Therefore, R&D partners enjoy a large freedom of contract and design the agreement according to their individual needs. However, the parties will have to pay attention to some legal provisions that dictate or forbid certain clauses. Those include, first and foremost, regulations set up by the authorities providing grants. General civil law provisions on contracts also have to be kept in mind. And finally, antitrust issues may arise from R&D agreements.

1. Funding Regulations

As long as joint research projects involve private funding only, the parties are—within the boundaries of civil law—entitled to agree on any provisions they wish. They may decide whether they plan to file patent applications or not and, if yes, who may apply. Furthermore, provisions concerning the right or the obligation to use the results, the distribution of costs and risks or each party's contribution to the project, are within their discretion.

However, as mentioned above, most projects apply, at least in addition to private funding, for and receive public grants. Those grants are not conceded without conditions. If funding regulations are violated, authorities may reclaim the funds, which usually causes severe financial damage. Therefore, these regulations should be considered at an early stage of the project negotiations.

a) Auxiliary Terms and Conditions of the BMBF

The Federal Ministry for Education and Research (BMBF) as the main authority distributing R&D grants has set up Auxiliary Terms and Conditions,[14] hereinafter referred to as NKBF, which are part of each approval letter to private companies. They are available in German only.

Sec. 9 of the NKBF assigns the results of the project to the recipient of the grant and states that these results have to be utilized. Most part of the NKBF, however, concerns administrational issues like use of the grant, accounting and reporting. Although these provisions are important, they do not play a large role in negotiations between partners.

The most important provisions to consider for negotiations can be found in Sec. 10 of the NKBF. It mistakenly speaks about "results protected by copyright" and commits the recipient of the grant to file a patent application in Germany before publishing the research results. The publication of the results is also mandatory, Sec. 11.4. While the recipient is basically entitled to the exclusive use of the results (Sec. 12.1), educational and research facilities have to be provided with them for free.

In some areas, the NKBF raise more questions than they answer, especially when dealing with two or more partners within an R&D project. For example, it is unclear what happens if one partner "invests" previously protected results and how the partners may use them. Also, the NKBF do not contain provisions on filing rights for new inventions and how

14. Auxiliary Terms and Conditions for Funds Provided by the BMBF to Commercial Companies for Research and Development Projects on a Cost Basis (Nebenbestimmungen für Zuwendungen auf Kostenbasis des Bundesministeriums für Bildung und Forschung an Unternehmen der gewerblichen Wirtschaft für For-schungs- und Entwicklungsvorhaben). These can be downloaded in German only at *http://www.kp.dlr.de/profi/easy/bmbf/pdf/0348a.pdf.*

this relates to the publication interests of scientific partners. The freedom of publication of involved university professors is not addressed, just as little as procedures and responsibilities in case the patents are infringed by third parties or it is claimed that they infringe other patents.

Also, the NKBF have been criticized especially by small and medium enterprises as being too inflexible. The necessity of patent protection constricts companies that work with very short cycles of innovation, as the process takes time and money. Patent protection is of little value to those companies, as they do not see themselves prevailing in litigation against large and foreign companies.

Currently, the BMBF is preparing a revision of the NKBF that, hopefully, will better reflect the needs of joint R&D projects.

b) Art. 107 of the Treaty on the Functioning of the European Union (TFEU) (ex. Art. 87 EC-Treaty)

Within the European Union all aids granted or financed by a Member State have to meet the requirements of Art. 107 TFEU.

According to Art. 107 para. 1 TFEU, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods is prohibited, in so far as it affects trade between Member States.

Art. 107 para. 2 and 3 TFEU, however, provide for several exemptions of this general interdiction. With regard to R&D grants Art. 107 para. 3 lit. b) and c) TFEU are of primary interest. According to lit. b), a state aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State can be considered to be compatible with the internal market. The same applies to state aids, which facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest (Art. 107 para. 3 lit. c) TFEU).

The Member States generally have to notify the Commission prior to the implementation or reorganization of a state aid, so that the Commission can decide whether the state aid is compatible with the internal market, in each single case. However, this does not apply to such aids covered by a block exemption released by the Commission.

There are two existing block exemptions possibly relevant for R&D grants:

Firstly, EC Regulation No. 1998/2006 ("De-Minimis")[15] according to which state aids that don't exceed □ 200.000,—within three years are generally considered to be compatible with the Internal Market.

Secondly, EC Regulations No. 70/2001[16] and No. 364/2004[17] exempt such R&D grants given to small and medium-sized enterprises from the burden of general notification that don't exceed the prescriptive funding limits (100 percent for fundamental research, 60 percent for industrial research, 35 percent for pre-competitive development).

All other state aids, which aren't covered by a block exemption, are currently judged on the basis of the Community Framework for State Aid for Research and Development and Innovation (2006/C 323/01), published by the Commission in 2006.[18]

c) Framework Programme of the European Union

The "Rules for Participation" (RfP) for the Seventh Framework Programme 2007-2013[19] (FP7) contain provisions on intellectual property rights in Articles 39-51. Annex II, part C of the Model Grant Agreement (ECGA) repeats and specifies these provisions, a "Guide to IPR" explains them in a comprehendible text.

Here as well, the results of the project (referred to as "foreground") are assigned to the participants of the programme (Article 39 para. 1 RfP). While protection of the results is recommended (Article 44 para. 1 RfP), it is not mandatory and the EU Commission acknowledges that there are situations where other means of putting results into the public domain constitute an appropriate alternative. In case the owner does not protect the results by IPRs,[20] the Commission may assume ownership and take measures for protection.

For joint projects, the partners are invoked to establish an agreement regarding the allocation and terms of exercise of the joint ownership. In absence of such an agreement, a default joint ownership regime applies. Article 40 para. 2 of the RfP provides

15. Commission Regulation (EC) No 1998/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid, L 379/5 of 28.12.2006.

16. Commission Regulation (EC) No 70/2001 of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to State aid to small and medium-sized enterprises, L10/31 of 13.1.2001.

17. Commission Regulation (EC) No 364/2004 of 25 February 2004 amending Regulation (EC) No 70/2001 as regards the extension of its scope to include aid for research and development, L63/22 of 28.2.2004.

18. The document can be downloaded on: *http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2006:323:0001:0026:en:PDF.*

19. Regulation (EC) No 1906/2006 of the European Parliament and of the Council of 18 December 2006, OJ L 391 of Dec. 30, 2006, page 1.

20. *ftp://ftp.cordis.europa.eu/pub/fp7/docs/ipr_en.pdf*

that in this case, all partners are entitled to grant non-exclusive licenses, which is in contradiction to the joint ownership regime otherwise provided for in jointly owned patents under German Patent Act.

Transfers of ownership are allowed, but the assignor must pass on all contractual obligations. The results also have to be published.

Finally, the RfP and the ECGA contain a minimum standard of access rights in joint projects. A participant must be granted access to another participant's results and background (*i.e.* knowledge, inventions and databases that the participant holds before entering the project) if this is needed to carry out the project. These provisions cannot be set aside or restricted, but partners may agree on additional access provisions within their agreement.

After all, the European FP7 provisions prove to be much more flexible than the German NKBF, being in line with the specifics of joint projects.

2. General Contract Law

Most provisions in the German Civil Code in a contract are not enforceable clauses. They only apply if there is no special provision that addresses a certain issue. However, some provisions are binding. They either support legal clarity (for example formal requirements) or especially protect one party that is considered to be in a weaker position than the other party (for example provisions for contracts between consumers and traders).

While formal requirements do not apply to R&D Agreements, partners should refrain from verbal ancillary agreements. In case of a conflict, it is often hard to prove the content of such an agreement.

a) Standard Form Contracts

When a standard form contract for an R&D Agreement is used, the room to negotiate is very small. Especially the partner presenting this standard form will have to pay attention to Sec. 305-310 of the German Civil Code (BGB) if this contract is governed by German law. Those provisions, primarily designed for consumer protection, partly apply to contracts between entrepreneurs (Sec. 310 para. 1 BGB).

In detail, surprising and ambiguous provisions in a contract are ineffective. Clauses that are so unusual that the other party need not expect to encounter them do not form a part of the contract (Sec. 305c para. 1 BGB). For example a clause that would obligate the research partner to provide any further work that becomes necessary during the contract without further remuneration would certainly be understood as unusual and therefore invalid. Furthermore, provisions that unreasonably disadvantage the other party are also null and void (Sec. 307 BGB). Usually, an unreasonable disadvantage means that the party presenting the standard form contract tries to implement solely its own interests and does not consider the other party's interest at all. Courts deciding over this matter will balance both parties' interests and look into what is usual within the same field of business. Extremely low or high remunerations and prices are usually not considered as an unreasonable disadvantage. An unreasonable disadvantage may also arise from an unclear and incomprehensible clause. However, the transparency requirements apply only within reasonable limits. A contract should contain legal terms and should not have to come along with a commentary book.

b) Contractual Penalties, Withdrawal and Default

Sec. 339-345 BGB deal with contractual penalties that are payable if one party fails to perform a certain obligation. Unless otherwise expressly agreed, the obligor must be responsible for his breach of duty. If a contractual penalty is disproportionately high, a court may reduce it (Sec. 343 BGB); this provision is binding.

Other contract law provisions that take effect if the agreement does not contain a specific clause include the provisions on withdrawal and default. A requirement for a legitimate withdrawal in case of non-performance is, for example, that the obligee specifies an additional period for performance (Sec. 323 para. 1 BGB), which may only be dispensed in certain cases (Sec. 323 para. 2 BGB). When a party withdraws legitimately, the performance received has to be returned or compensation must be provided for its value (Sec. 346 BGB). The right to demand damages for the breach of duty is not excluded (Sec. 325, 346 para. 4 BGB).

Default generally requires that the performance is due and that a warning notice has been given (Sec. 286 para. 1 BGB). In some cases, for example when a period of time according to the calendar has been specified for the performance, a warning notice is dispensable (Sec. 286 para. 2 BGB). A main consequence of default is that the obligor is responsible for all negligence (Sec. 287 BGB), for example when research results are destroyed. Also, default interest has to be paid on money debt (Sec. 288 BGB).

3. Antitrust (Competition) Law

R&D Agreements often do not have to deal with antitrust issues. The pivotal question is whether the cooperation has a negative effect for competition on the market of the final product or not. There will not be an effect if the agreement covers only

research and development phases and does not contain provisions on the exploitation of the results. Also, the level of competition between the partners will play an important role. Cooperations between a university and a private company or between private companies of different branches are often considered as unobjectionable, while a cooperation between competitors will most often have an effect on market prices; especially if the agreement between competitors also covers production and sales of the new product, or licensing and transfer of know-how, antitrust concerns arise.

a) Applicable Antitrust Law for Agreements

Antitrust Law within EU member states is both covered by European and national law. While European law is only applicable when the case has a cross border relationship, national law covers restraints on competition with effect only within an EU member state. In case that a cross border case is judged using national law, courts will have to interpret the national law in a way that does not create conflicts with European Law and its interpretation. That is why in most cases, European Law will be decisive if an R&D Agreement raises antitrust concerns.

Art. 101 para. 1 TFEU prohibits all agreements between undertakings or concerted practices which may affect trade between EU member states and which have as their object or effect the restriction of competition within the EU market. That means, the agreement has to have a significant effect within the common market of the EU. In particular, if the agreement includes clauses envisaging the European market and is at least capable of significantly influencing competition in the European market, such effect may be regarded.

However, not all agreements restrict TFEU. Art. 101 para. 3 TFEU states that the prohibition is inapplicable in case of any agreement which

> *"contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:*
>
> *a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;*
>
> *b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question."*

For certain groups of agreements, the EU has issued so-called "Block Exemption" regulations, which exempts certain groups of agreements in general from the application of Art. 101 para. 1 TFEU.

Not every agreement that is covered by Art. 101 para. 3 TFEU falls into the scope of a Block Exemption. Until 2004, companies that had to apply to the European Commission for individual exemptions were replaced from the prohibition. While this served the legal certainty, it was a large bureaucratic effort. Under the new Antitrust Council Regulation,[21] individual exemptions were replaced by a system of legal exemptions. The parties to an agreement now have to estimate themselves whether their agreement may fall under the prohibition of Art. 101 para. 1 TFEU or are exempt from the prohibition under Art. 101 para. 3 TFEU.

b) Block Exemptions for R&D Agreements

R&D Agreements with a noticeable effect on the market may fall under a block exemption.

However, the Block Exemption on Technology Transfer[22] is not applicable. It covers the licensing of an existing technology in form of a patent licensing agreement, a know-how licensing agreement, a software copyright licensing agreement or a mixed form of these agreements. The primary purpose of such an agreement has to be the production of a contract product.

While such license agreements may be important for implementing an R&D project, the focus of R&D Agreements is a different one. The Block Exemption on Research and Development[23] (Regulation 2659/2000) and now (Regulation 1217/2010) is especially designed for these cases.

Art. 1 para. 1 of Regulation 2659/2000 defined three types of exempt agreements showing differences concerning the exploitation of the results:

> a) joint research and development of products or processes and joint exploitation of the results of that research and development,
>
> b) joint exploitation of the results of research and development of products or processes jointly car-

21. Council Regulation (EC) No 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, OJ L 1/1 of Jan. 4, 2003.

22. Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81 (3) of the Treaty to categories of technology transfer agreements, OJ L 123/11 of April 27, 2004.

23. Commission Regulation (EC) No 2659/2000 of 29 November 2000 on the application of Article 81 (3) of the Treaty to categories of research and development agreements, OJ L 304/7 of Dec. 5, 2000. Revised as of Jan. 1, 2011 to Commission Regulation (EC) No 1217/2010 of 14 December 2010 on the application of Article 81 (3) of the Treaty to categories of research and development agreements, OJ L 335/36 of Dec. 18, 2010.

ried out pursuant to a prior agreement between the same parties, and

c) joint research and development of products or processes excluding joint exploitation of the results.

With Regulation 1217/2010 even paid for research and development falls under these rules (Art. 1 (1) (a) (iv) and (vi)).

The exemption has at least several requirements (Art. 3 para. 2-5) and limitations (Art. 4, 5). For example, if two or more partners are competitors, their market share within the relevant market may not exceed 25 percent (Art. 4 para 2). If they are not competitors, the exemption last at least seven years (Art. 4 para. 1). Art. 5 lists ten key limitations that may not be part of an exempted R&D Agreement, as they aim on severely limiting the competition. Some examples are non-competition clauses that restrict parties even after the completion of the cooperation (lit a), non-attack clauses concerning intellectual property (lit. b) and impeding resellers of the contract product within the common market (lit. j). Forbidden clauses that only apply to joint exploitations include the prohibition of passive sales (lit. f). Within pure R&D cooperation without a joint exploitation, the partners may not agree, for example, on limitations of output and sales (lit. c) and/or fixing of prices (lit. d).

Finally the new Block Exemption on Vertical Agreements should be mentioned although it seldom applies to R&D Agreements.[24]

c) The EC Merger Regulation

If the respective R&D Agreement includes the foundation of a joint venture to execute the R&D Agreement or to exploit its results, the requirements of the EC Merger Regulation[25] must be taken into account. A relevant merger, however, will only be on hand, if the newly founded company forms a fully functioning, independent entity by itself.

However, since the success of an R&D Agreement usually isn't clear at the time of its conclusion, such a joint venture most likely won't be established in the R&D Agreement itself. In most cases this term will be subject to an additional agreement. Therefore, the EC Merger Regulation is of minor interest for the actual R&D Agreement.

24. Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, OJ L 102/1 of April 23, 2010.

25. Council Regulation (EC) No 139/2004 of 20 January 2004 on the control of concentrations between undertakings, L 24/1 of 29.1.2004.

IV. Preparing to Enter into Negotiations for R&D Agreements

Negotiating an R&D Agreement is in many respects not different from negotiating any other agreement with a comparable economic importance. However, there are some characteristics that need to be considered throughout the process. For example, it is crucial for all parties to understand that a successful R&D project also depends on a good teamwork.

In order to allow an effective and successful negotiation to take place, each party will have to invest some time in the preparations. After deciding on whether the right partners have been found, they should think about which options they have and what a preferred deal should include. Finally, each side will have to think about their strategy for negotiating the agreement.

As a matter of course, the intensity of the preparations depends on the size of the project and the interests at stake. But even smaller contracts for works and services should not be signed blindly.

1. Due Diligence Investigations

Before entering into an R&D Agreement, each party should know as much as possible about the commercial, financial, legal and scientific environment of the intended project. The investigation usually conducted to gather information is called "due diligence." Relevant questions will need to be addressed both internally and externally.

a) Phases of Due Diligence

In a first phase, potential partners are identified. That is, out of a field of potential cooperation partners, who should be the preferred partner to cooperate with? The requirements should be detailed enough to exclude entities that will later prove quite easily not to be capable for the project, but also general enough to produce a short-list of only one potential partner or a few institutions and/or companies. This phase will also include a profound market research on the possible exploitation of the results, the funding programmes to be considered, and the intellectual property rights to be invested or to be acquired.

The second phase is focused on the specific deal. The potential partners identified in the first phase are investigated in much more detail. Even if the initiative for the project came from one side, within a true cooperation, these investigations should take place on both sides. This may include a visitation of the possible research facilities and equipment, identification and verification of protected intellectual property and secret know-how, and a check of the

financial situation of the partner to ensure that the project will be terminated properly.

In order to bring the external investigations of the partners under a properly regulated regime, the potential partners should agree on some issues, including:

- Time limit for the investigations.
- Confidentiality structure (Who and how many personnel are entitled to access relevant documents and information? Can copies be made? Is it excluded to use the relevant documents and information only for the purpose of the due diligence, unless a follow-up agreement is concluded?)
- Non-disclosure and return of all documents and copies in case an agreement is not concluded.

The partner that is being investigated will have to make sure to which extent disclosures are possible. Some agreements include a provision that they may not be disclosed to any third party.

Each party should consider obtaining assistance during the due diligence process, for example by external scientists, lawyers, patent experts or accountants. This will help to increase the value and the effectiveness of the investigations.

b) Finding the Right Partner

Companies should remember the whole field of possible partners—universities, research facilities, private inventors or other enterprises. Each one of them will have their benefits and drawbacks. Universities may offer well-trained personnel and good equipment, but most often will not be able to invest their own money. Private companies can more likely provide funding, but have a larger interest in taking part in the exploitation of the results. Experience in the relevant field of activity should be proved by publications, the patent portfolio and previous projects.

c) Market for the Results

The investigations in this area will focus on the commercial opportunities of the project's intended results. If the result will be a product in case of a successful project, it will be necessary to determine whether it will compete on an existing market or whether it will be relevant to a new or emerging market.

In the first case, research should be conducted on the value of the market, the existing and the forthcoming competitors, the possible advantages of the new product, the market entry costs, and the estimated revenues.

New and emerging markets will be more difficult to evaluate. In this case, besides potential competitors and costs, time will become an important issue. How long will it take to establish the market and to make it profitable? Answers will much more base on estimates and assumptions than on facts.

If the research will result in a new method or other kind of innovation, a similar approach to the possible exploitation is necessary.

d) Funding Programmes

Identifying potential funding programmes and evaluating their effect on the project is another important part of the due diligence process. This may also influence the search for an appropriate partner, as some funding programs request cooperations with universities or foreign partners. State-funded R&D projects follow different rules. Usually, the funding authorities offer counselling on the funding programmes, which will help to gain an overview.

e) Intellectual Property Rights

Some projects will require using technology or methods that are patent-registered or otherwise protected, others might be spin-offs of projects previously conducted by one of the partners. Therefore, the partners will have to check which previously existing patents they can invest, which licences they hold and which licences need to be acquired.

But also the potential results of the project need to be examined. Does prior art exist which may exclude patenting the results? Is the project likely to result in a parallel invention? Is patenting of the results an option at all, or will it be preferable to keep the results secret?

2. A Structure of the Deal

Another important preparation all partners to the agreement need to consider is the preferred structure for their deal. They need to understand which options they have should that structure either not be available or not be acceptable to the other party. This includes the overall type of the cooperation, the contribution each partner can make, identifying and handling of potential risks, and any operational imperatives that need to be considered.

a) Type of Cooperation

Usually the initiator of the project will determine which kind of cooperation is suitable for the planned R&D project. As mentioned above, R&D Agreements may range from contracts for work and service to true research cooperations. Determining the preferred type usually includes a check on the own capacities of doing the research work, including the interpretation of results and the maturing to marketability. Accordingly, the capacities of the potential partner need to

be determined. These capacities include manpower, equipment, intellectual property and know-how as well as funding.

b) Responsibility of Each Partner and Project Management

The distribution of the work will be a main factor to discuss before drafting the agreement. This should include a general timeline of the project which will be concretized. For true R&D cooperation, the partners should consider whether they prefer a work-sharing approach where each partner is responsible for a part of the project and the results are later exchanged and combined, or whether they want to focus on an exchange of personnel and know-how where most of the project steps are carried out jointly.

During the project, a joint steering committee should coordinate the implementation of the agreement. It is recommendable to identify the key persons on an early stage, as especially in long-running projects, the importance of a trustful cooperation should not be underestimated.

c) Dealing with Conflicts and Risks

The interesting parts of contracts are not phrased for the "good times." As long as the partners enjoy a trustful and successful cooperation, no "what-if" questions will be relevant. A diligent contract will also take care of the "bad times." This includes accountability clauses, procedures to resolve disputes at low cost, and identifying some important risks, especially when dealing with partners from outside jurisdictions.

Not every risk can be addressed in an agreement in order to keep it manageable. However, considering the financial interests at stake, the parties might consider asset protection, insolvency of a partner and payment risks.

d) Operational Imperatives

At the time the agreement will be signed, nobody will be able to predict whether the cooperation will proceed as planned. However, the partners should pay attention during the drafting process to some key points that will increase the possibility of success. For example, the legal structure that is ultimately adopted should align with the operational needs of both partners. A misalignment may create serious problems. If a potential conflict is identified, the partners will have to think about changing either the legal structure or their operations. Throughout the process, those involved in drafting the agreement will have to consult those ultimately involved in implementing it.

Furthermore, the personnel and the advisors who participated in the negotiations will have to keep notes during the whole process. If a certain provision proves to be not appropriate for one party in the daily business, it will be necessary to review why this provision has been enacted before asking for an alteration of the contract or simply ignoring the agreement.

3. The Art of Negotiating

Negotiations usually take place as a mix of face-to-face meetings, video conferences, conference calls and written communications. In any case, each party should properly prepare their positions and strategies. This will save time for all partners involved and lead to better results.

a) The Negotiating Team

One person usually cannot cover all the matters that require negotiation. An R&D Agreement includes many matters, first and foremost scientific, legal and financial ones. Depending on the size of the project, it is recommendable to have an expert or an expert team for each one of these areas. However, one person should act as the spokesperson that coordinates all activities and is the main person engaging with the other side.

While not every team member must be visible to the other side, it is crucial to keep every-body involved up-to-date on the developments. Every team member must be clear about his or her role, especially under which circumstances they are allowed to make binding commitments. The negotiating team must be consistent and must not convey different messages.

b) Getting Ready

Before the negotiations begin, each side will have to ask themselves whether they have all relevant knowledge necessary to do the deal. This knowledge derives from the due diligence referred to above, the understanding of the structural options available, the operational implications of those options as well as the understanding and anticipation of the counterparty's likely positions and drivers.

Also, it is important to be aware of the skills needed to achieve an agreement, including scientific, legal, patent, financial, operational, tax, governance, regulatory, accounting and, if the project involves foreign partners, cultural skills. Some of these skills will be necessary to formulate the agreement; others will be needed for negotiations. All of those skills need to be utilized in a proper way.

In order to assess whether there is a mutual understanding on the key components of the agreement, it is recommendable to start with a terms sheet. This also is an important step that might save time and money if insuperable obstacles emerge. The terms sheet needs also to address to what extent it is legally

binding and what must be fulfilled to elevate to the stage of negotiating the final agreement.

c) Negotiation Strategies

There are basically three different types of negotiating: The hard way, the soft way and a medium approach. "Winning at all cost" is the motto for the hard method; the own goals should be met as close as possible to 100 percent. Pressure is put on the other side which is considered as an opponent, not a partner. That is why for R&D cooperations, this method should not be applied. As R&D projects tend to last for a longer period of time, the damage most often will be larger than the benefits. Cooperation is often impossible after such negotiations.

The soft method focuses on reaching a win-win situation. Negotiations are friendly and try to reach compromises wherever this is possible. When applying this method, the danger is to be exploited and to reach compromises both parties do not really appreciate, just to keep the other party happy.

An excellent example for the medium approach is the Harvard Method.[26] It is focussed on identifying and reconciling interests in order to reach a win-win result. The concept is based on four principles:

- People: Relationship and content must be separated. Human beings are emotional and think subjectively. Before solving a problem, both perspectives have to be explained and understood. The other party's interests have to be taken seriously.
- Interests: The parties have to get behind entrenched positions to find underlying common interests.
- Opportunities: Both parties have to understand that there is never a perfect solution. It is better to develop alternatives that serve both parties' interests.
- Facts: If the counterparty cannot be convinced and thinks only his opinion is true, objective and/or neutral criteria have to found to base a decision on (for example market value, expert opinions, legal provisions, ...). This will allow finding a fair solution.

However, parties also need to define their own pain threshold. No deal might be a better decision in the end than a bad deal.

In particular, a party should at least consider the full gamut of techniques used in negotiations:

- Listening to the counterparty actively. This will create a positive atmosphere and enhance the flow as well as the comprehensibility.
- Being silent when it can be effective to leave room for the counterparty to fill or give time to react to an offer.
- Be polite. Impoliteness often does not lead to success. Sympathy is often an underestimated factor in negotiations. Counterparties will more likely use their room to negotiate if they like somebody personally. Emotions should be controlled in order to keep a rational base.
- Observing the counterparty's reaction at any time and listening to what they are not saying may help to determine what is important to them. This includes observing the other members of the counterparty's negotiation team when one of them is speaking.
- The right timing for an offer is important, as it is to be prepared for surprises from the other party. Putting down the cards too early often means that the other party is in advantage, as they can adopt their counteroffer and ask for additional concessions. Also, parties should be aware of last-minute requests, when the deal seemed to be finished. Conceding means that there might be even more room to negotiate, and possibly even more requests will follow.

Furthermore, negotiating will be more relaxed if a serious "Plan B" exists. This allows to show a party's strength and can be used in response to a particular position of the counterparty or to support their own position. Ideally, this plan does not have to be used. In any case, the party should not waste the argument on minor issues. Good timing is important. Above all, the "Plan B" must be equally attractive to the current negotiation to work.

All partners always have to understand that finally, they are in the same boat. An R&D Agreement is not comparable to an agreement for buying a machine or licensing a trademark, as the cooperation will last for months or even years. The real teamwork only starts after the deal is made, but the tone of the cooperation is set during the negotiating phase. ■

26. This approach is laid down in Fisher/Ury/Patton, Getting to Yes—Negotiating Agreement Without Giving In (1981).

Patents And Licensing As Metrics Of Technology Transfer: An Example From Clean Technology

By Mark V. Muller and Annemarie Meike

Introduction

In this article, the authors attempt to untangle several interwoven thoughts and assumptions about new technology, its impact, and ways to measure that impact with respect to what is commonly referred to as "clean technology." Global climate change has been recognized by a variety of organizations in the U.S. and abroad as an important issue. It is often asserted that new technology is the cure for climate change. For example, the importance of enhanced technology transfer was highlighted as a primary component of the United Nations Framework Convention on Climate Change (UNFCC) in 1992.

At least three key assumptions are evident in the assertion that enhanced technology transfer can impact and mitigate climate change. The first is that a direct relationship exists between the rate of technology development and the rate of impact on climate change. That is, by accelerating the development of new clean technologies, we can more quickly moderate global climate change. A second assumption arrives as a corollary, that the westernization of nations will accelerate climate change, and that accelerated introduction of clean technologies (via tech transfer) into the markets of these societies will mitigate that impact. A third assumption is that the development of new technology and its transfer can be tracked, using available patent and license information.

The authors of the current article view the relationship between the introduction of new clean technologies and slowing global climate change as much less direct, and far more complex. In detail, we find the connection elusive. However, leaving aside what actually spurs innovation and the development of new technologies, this article delves into a more fundamental concept: that patent and licensing data can be used to track technology transfer activity.

As a point of departure, a joint project by the United Nations Environment Program (UNEP), the European Patent Office (EPO), and the International Center for Trade and Sustainable Development (ICTSD) was initiated to study the transfer of climate change mitigation technologies. The final report resulting from this study was recently issued (Patents and Clean Energy: Bridging the Gap Between Evidence and Policy, hereinafter the "UNEP Report"), and is summarized in the Background section of this article.

Beyond the scope of the UNEP Report, but inherent in the premise that guides it, are assumptions regarding what the patent data tells us and what it doesn't, the role that intellectual property currently plays in third world countries, and how it might be used in the future. The authors believe that patent and license information should be used with care as a metric for assessing the impact of technology. In the following paragraphs, these concepts are presented as they play out in the field of "clean technology," and then compared with similar issues in the pharmaceutical arena.

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Background

The UNEP Report was provided in three parts: technology classification and taxonomy (to define clean technology), the characterization and mapping of a clean technology landscape, and a survey of licensing practices. For the purposes of the UNEP Report, clean energy technologies (CETs) were defined as all energy generation technologies which have the potential for reducing green house gas emissions. The UNEP study took a step beyond prior studies that tried to determine the rate of technology dissemination solely by analyzing global trends in patenting, which, the researcher found, failed to provide an accurate result. Thus, the UNEP study conducted a large scale survey of licensing activity, with 160 companies responding worldwide, representing about 30 percent of the organizations that were approached.

Mapping-Taxonomy. The UNEP study classified and mapped both mature and emerging clean energy technologies, to identify current and potential components that might be used to mitigate climate change. The EPO developed a taxonomy based on technical attributes. Eight categories were mapped:

solar photovoltaic, solar thermal, wind, geothermal, hydro/marine, bio-fuels, carbon capture and storage, and the integrated gasification combined cycle. The result was a list of approximately 50 technical fields related to clean energy technologies, providing a new taxonomy to guide the EPO in its review of 60 million patent documents. These documents were reclassified according to technical fields related to clean energy technologies, such as solar photovoltaics and geothermal. Some 400,000 patent documents matching these criteria were retrieved worldwide. This new taxonomy for clean energy technologies is now an official part of the EPO patent classification system.

Several interesting points emerged from the new classification scheme. For example, it was determined that the rate of patenting in fossil fuels over the past 20 years has remained relatively constant, and has decreased since 2001. However the decrease in the fossil fuel patent rate is not counterbalanced by an up-tick in clean technologies. Since that time, the patenting rates in clean energy technologies mapped by the UNEP study were about on par with filing activity in all other technology areas (approximately 20 percent per year). Solar, wind, carbon capture, hydro and bio-fuels have the fastest growth. It was also noted that about 80 percent of all clean technology patents originate within a relatively small group of countries: the USA, Germany, Japan, the UK, and France. The UNEP study does not capture how many of these patents are actually protected in developing nations, so as to make them available for licensing in those countries.

Licensing. The UNEP licensing survey was divided into three parts: general licensing practices, collaboration, and specific out-licensing practices with respect to developing countries. Approximately two-thirds of the respondents to the UNEP survey were private companies, consisting of about half multinationals. Academic institutions, governmental bodies, and other research consortia made up about one-third of the total respondents.

In the end, out-licensing to third-world countries was not found to be significant, at least with respect to clean energy technologies. That is, the rate of licensing out for clean energy technologies generally matched the rate achieved with respect to other technologies. In addition, when licensing out did occur, perhaps not surprisingly, the main beneficiaries were China, India, Brazil, and Russia.

The licensing survey revealed several difficulties with out-licensing to entities in lesser-developed countries including: transaction costs, identifying a suitable partner, and agreeable licensing conditions. Clean energy technologies, where rapid diffusion of technology was assumed in the UNEP Report to be essential (being listed as a primary component of the UNFCC), tended to suffer more than most–the licensing framework in this area was relatively limited, as will be explained in more detail below. Thus, one might be led to believe there is a need to improve market conditions and encourage licensing with respect to developing countries.

The survey cited areas of primary concern for potential licensors. These include the weight they attached to scientific infrastructure and human capital, as well as favorable market conditions and investment climates in developing countries. Surprising almost no one, the overriding concern was that of protecting intellectual property in the country to be licensed.

The UNEP Report's authors observed that relatively few countries are active in licensing the clean technology arena. Moreover, carbon storage and wind energy are controlled by a relatively few number of businesses. Within this limited framework, the largest growth was in the photo-voltaic and geothermal industries. The activity in hydro-marine and carbon capture are increasing. In contrast, most of the other industries examined were found to be in decline (*e.g.*, solar-thermal).

Large companies appeared more open to licensing activity than smaller companies. And while companies of all sizes look forward to R&D collaboration (*e.g.*, teaming up with universities), they appear to dislike collaboration in the form of sharing intellectual property, especially when it comes to protecting and licensing less-developed countries.

The UNEP Report's authors summarized their results by noting the need for more information from the demand side. That is, they saw a need for a further examination of the concerns of potential licensees, and their motivations. They suggested that their study could be refined by identifying patented inventions according to ownership and commercialization in the marketplace. They hoped this would improve the identification of technologies that contribute to impeding climate change.

Discussion

What conclusions can be drawn from the results of the UNEP study and survey? What does the patent and patent licensing data really tell us (and what does it leave out) regarding the role that intellectual property plays in third world countries at this time?

One observation may be that the UNEP Report's authors are attempting to put a square peg in a round hole. The assumption that having rights to a patent

is essential to implementing technology results in a misinterpretation of the data. However, we see some value in reinterpreting the raw data. In addition we find some relevance in comparing and contrasting the clean technology case with pharmaceuticals, another class of arguably important technologies having important philanthropic and technological value.

Analysis of the UNEP Report's data and conclusion. The UNEP survey was commissioned to discover whether the declared critical need of rapid technology transfer to mitigate climate change had been satisfied. The immediate finding was that no special effort was being made to license the least-developed countries with regard to clean energy technology. The UNEP report authors proceeded to search for reasons to explain this result. Instead, perhaps the underlying assumption should be questioned: is patent and licensing activity really a direct reflection of technology transfer? For example, little attention was paid to many potential, and perhaps substantial, barriers to this singular and quite narrow route to technology transfer. For example, China has shown great industrial capacity and ability to innovate. However, this country may not be greatly motivated to license technology, either in or out. Thus, most of their technology may be developed and kept at home, meaning that this part of China's innovations, which may have a substantial impact on the advancement of clean technology (and arguably climate change), would see no technology transfer, and perhaps no patenting activity outside of China.

In other cases, surely part of the issue is an underlying valuation and choice not to patent in developing countries. Given the expense involved in obtaining world-wide rights, patent holders do not protect their innovations in countries from which they do not expect to experience significant profit.

What Additional Information is needed? First, one should discriminate between patent rights and technology. Technology is indeed the expression of a process, machine, article of manufacture, or composition of matter, or any new and useful improvement. However, it may or may not be novel and non-obvious. Patent rights, on the other hand, are gained when 1) the technology is the result of innovation, 2) the technology holder chooses to protect the innovation, and 3) obtains the right to a monopoly on that innovation from the government of a particular country. Therefore it is important to ask: is the patent/licensing data gathered by the UNEP Report really telling us what we want to know about technology transfer? For example, how many of the patents originally granted in the five major countries (USA, Germany, Japan, the UK, and France) were actually protected via patent in a developing country, such that a license could rightfully be demanded?

Second, one would like to understand the amount of technology transfer that goes on without a patent or a license. Any technology that was never protected in a particular country, or that has exceeded its patent lifetime, can be transferred without a license. Indeed, lesser-developed countries may well be specifically motivated to choose technology that is proven, and inexpensive to implement (*i.e.*, most likely an off-patent technology). New technologies can be risky to implement, and require a large amount of capital investment. Neither of these factors would make such technology attractive to a developing country.

Finally, the risk of working with cutting edge technology to approach the limits of efficiency, only to be defeated by supply chain issues—such as the need for exotic processes and materials, or even the need for a steady, consistent, and secure supply of energy, is too great. Thus, infrastructural requirements can be a key to the success of technologies in developing countries. For example, a technology that requires clean rooms, exacting machining specifications, or reliable continuous power, heating or cooling will not be successful until the appropriate infrastructure is in place. However, note that in some cases, like cell phone technology, developing countries have been able to skip a technological step and thereby avoided investment in land line infrastructure. Considering even these few points leads one to realize that the actual mechanisms of technology transfer, and the real barriers to its occurrence, may not be evident from the data provided in the UNEP Report.

The conclusion may be that many developing countries simply do not have some of the infrastructure requirements in place to apply promising new technologies. Importation, fabrication and assembly may be quite difficult, for example. Therefore, less-developed countries may tend to implement clean technology in whatever form is readily available—the existence of a patent or a license are likely irrelevant with respect to ultimate value.

Is There a Parallel in Pharmaceuticals? Comparisons to the pharmaceutical industry come to mind because interest has also been expressed in bringing these technologies to less developed countries for philanthropic reasons. For example, the economic constraints of a developing country similarly hamper extracting the full value for a new and promising technology in both pharmaceuticals and in clean tech. However, the philanthropic value operates to motivate the transfer of pharmaceutical technology

to needy developing countries on at least some scale. Thus, it might be interesting to review the data and determine whether similar trends exist in the clean technology area.

Patent pools are another potential avenue for licensing lesser-developed countries. However, as the number of patents in a particular area increases (*e.g.*, in the area of carbon storage technology), and product development increases along with it, new entries into the market dilute the value of pools. As a result, the UNEP study found the majority of organizations favored collaborative R&D activities, patent out-licensing, and joint ventures over mechanisms such as patent pooling and cross-licensing. Apparently the same attitude is prevalent in the pharmaceutical arena. Indeed, it is only this year that Gilead, GSK/ViiV, Roche, and Sequoia have announced that they will start discussions about joining an HIV medicine patent pool. The UNEP survey results indicate that while there might be some inclination to include technology as part of an aid package to lesser-developed countries, this combination is not likely to occur within the confines of a licensing transaction. The UNEP survey results suggest that companies (especially smaller companies) are simply not motivated to license to less-developed countries, no matter what channel is used.

Another similarity between pharmaceuticals and clean tech is a barrier that was explicitly mentioned in the UNEP Report results. This barrier concerns the enforcement of patent technology. In many less-developed countries, it is difficult for a licensor to enforce the patents. And given that the primary concern of a licensor is often protection of the technology, this can be a significant obstacle. Pharmaceutical companies often invest hundreds of millions of dollars in developing new drugs, so that this issue takes on paramount importance. Thus, the industries appear to be similar in this respect. It may be that patent holders in each case are simply choosing not to protect patents in countries where attempts to protect intellectual property are seen as futile.

There is a major difference between clean tech and pharmaceutical licensing to developing countries, however: the technologies of interest in the pharmaceutical industries are often those that are still protected under patent rights. With respect to clean technology, many of the relevant solutions have long been off-patent or never protected in certain countries.

Conclusion

So, what do the patent data in the UNEP Report suggest? Is technology transfer through licensing a mechanism for climate change? The data indicate that it is not. Is technology being transferred through other mechanisms that may have an impact on climate change? The data provided by the UNEP Report does not allow us to determine the answer.

Surely developing countries are called such because they are evolving and developing infrastructure. One would imagine that taking on a patent prosecution and protection infrastructure, which is required for a licensee and licensor to believe there is value in licensing, would be one of the longer-term, lower-priority issues for a developing country.

Are patented technologies making a difference in the third world in any respect? Again, they are likely not. Should they? This is a much more difficult question to answer. While there is no doubt that such is the case in countries that lead the world in technology, there is very little data available to indicate whether similar benefits might accrue if licensing was more prevalent in the developing world—were inventions to be better-protected in those countries. Indeed, there is a dearth of data to show where innovation occurs in such countries, and if so, whether the protection of such ideas is regularly overlooked. This might be a beneficial area for other organizations, such as the Licensing Executives Society International to investigate. In this way, the path to bridging the true gap between evidence and policy with respect to clean technology may be revealed. ■

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A New Era For Design And Copyright In Italy

By Massimiliano Patrini

Design is one of the most important industrial assets of the Italian modern economy. From fashion to furniture, the role played by the design is critical and creates occupation and richness in our country. Despite the huge relevance of the "design industry," Italy has delayed for a very long time the implementation of one of the foremost instruments of protection of design works, that is copyright.

Due to the major changes that have occurred in the recent legislation, the time has now arrived and we can say that we have entered into a new era for Italian Intellectual Property. The very recent decision held by the Court of Justice on 27th January 2011 has endorsed the approach taken by the Italian legislator. The result is a new system in which the room for the valorization of the design is becoming more and more significant, also in terms of its financial exploitation. As a matter of fact, beside the traditional "patent" protection, it is now possible to claim copyright law, also for those designs that were created in the past, within the time-limit of 70 years after the death of the author. This should lead all the owners of IP rights on design works to reconsider their strategy in Italy. The new approach should take into consideration both the perspective of the litigation and that of financial exploitation in a strict sense, as closely related between them. In fact, it is understood that the immediate consequences of a broader "right of exclusivity" on the market shall consist in a wider market for selling the product (without the competition and interference of the infringing "copies"), as well as in a more profitable license approach to the same market.

The design protection, in its essence, can now be outlined as follows:

- **The Registered Design**, established by Industrial Property code (legislative decree 10th February 2005);
- **The Community Unregistered Design** (EC Regulation 6/2002).
- **The Copyright**, (law No. 633 of April 22, 1941 and Industrial Property Code hereinafter also referred as "IPC").
- **The Trademarks** (Article 7 IPC).
- **The Unfair Competition** (Article 2598 civil code).

Focusing on the relationship between design and copyright, it is worth summarizing how this type of protection has been applied, enforced and interpreted in Italy in the last few decades, in the context of a legislation that is really complex.

1. The Italian Legislation on Design Before 2001

In order to understand the terms of the matter and the actual extent of the reform, we must go back to before 2001. At that time the legislation and case law did not acknowledge copyright protection for industrial design. The Italian legislation was based on the criterion that if a shape was registered and "patented" as a model, it could not also fall under copyright protection. The shape (bi or three-dimensional) was eligible to copyright protection only in the event that, even if applied to industrial field, its artistic meaning was separable from the industrial essence of the product to which it pertained. In accordance with this reasoning, the design and shape were regarded as "design-protectable" insofar as it was possible to conceive the artistic estimation of those shapes, regardless of their industrial function, exactly like for any other type of artistic work (paintings, sculptures tec.). This clearly amounted to denying the copyright protection for the industrial works design. The concept of the so-called "divisibility" of the shape from the artistic value has influenced for more than 60 years the Italian legislation and case law. As a consequence, the design protection was limited to the patent (the so called *modello ornamentale*, now registered model) and/or, but within very strict limits, to unfair competition rules. (Section 2598 Italian civil code).

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2. The Italian Legislation After 2001

On April 2001 we assisted in the very first "revolution." EU Directive 98/71 was enforced through Legislative Decree No. 95/2001. Therefore, the protection under Section 2 of the Copyright Law was made available to works of industrial design, **having creative character and artistic value.**

The relevant provision of Legislative decree No. 95/2001 were then transferred to Industrial Property code (February 2005). The combined provisions of Article 44 and Article 239 IPC originally provided for a progressive application of the new duration of protection provisions as follows:

- **Article 44** IPC established the duration of the right of economic exploitation up to 25 years from the date of death of the author/creator;
- **Article 239** IPC established a ten year grace period of validity, up to April 2011 for those works which, on April 19, 2001, were already in the public domain.

Although the 2001 Decree (and then the IPC) was a step towards harmonization with the European community's system, the European Commission considered it inadequate both by reason of the 25 instead of 70-years protection after the death of the author/creator (Art. 44 IPC) and by reason of the grace period (Art. 239 IPC); this was the justification to avoid enforcement of the copyright against entities which were lawfully (at least from a copyright infringement perspective) in the business of dealing with copies of works and to permit them to exhaust inventories, convert their production, and cease infringing the rights of the authors /creators during the grace period.

Two infringement procedures were brought against Italy to which the government responded with Decree Law No. 10 of February 15, 2007 amending Art. 44 IPC to provide for 70 years of protection and Art. 239 IPC to exclude copyright protection for works which were in the public domain before April 2001, thereby awarding copyright protection for the same period as for industrial design works and eliminating the grace period tout-court, thus causing great uncertainty about the correct way to interpret the law and its enforcement.

Art. 239 IPC was further revised by Law No. 99 of July 23, 2009 (the *"Made in Italy Law"*) whereby copy of works in the public domain started before April 2001 could continue within the limits of prior use without limitation.

Meanwhile and notwithstanding the grace period, Italian Courts handed down several decisions awarding copyright protection in favor of certain well-known design works, granting attachments and injunctions against their unauthorized reproduction. In ***Vitra Patente A.G.*** *vs. High Tech s.r.l.* of November 28, 2006 the Court of Milan granted copyright protection (through *inaudita altera parte* seizure, confirmed after the *ex parte* proceedings) for **Panton Chair** against the slavish imitation of the same by a similar product. The order was based on the assertion that Panton Chair has to be protected by copyright, being the artistic value of the same was well demonstrated by the exposure of this work in the most important exhibitions and museums all over the world. In ***Flos S.p.A.*** *vs. Semeraro Casa e Famiglia S.p.A.* of December 29, 2006 (the litigation which originated the Decision by the Court of Justice of January 27, 2011), the IP section of the Court of Milan granted in favour of Flos S.p.A. an *inaudita altera parte* attachment, by prosecuting the copyright infringement of the well-known lamp "Arco di Castiglioni." The decision was then confirmed by the Collegiate Court at the end of the appeal, filed by Semeraro Casa e Famiglia S.p.A. In this frame it is also important to mention other significant decisions that confirm the enforceability of copyright protection for Works Designs, such as that held by the Court of Florence in respect to **"Wagenfeld"** Lamp on August, 2003.

3. The Legislative Frame In 2011

Two recent interventions, almost simultaneous, by Italian Parliament and by the Court of Justice, had given a substantial (hopefully definitive) boost to the harmonization of the IP Italian System to EU Directive 98/71.

Reference is made to the decision held by the second Chamber of the Court of Justice in case C-168/09 (between the Italian companies Flos and Semeraro Casa e Famiglia S.p.A.) of January 27, 2011 as well as to Legislative Decree 131 of 2010, issued on September 2, 2010.

Art. 123 of Legislative Decree 131 of 2010 has further revised Art. 239 IPC to provide that copyright is now fully effective for the designs that meet the substantial requirements of such protection. Therefore it applies against the copies manufactured after 2006 and imported against 19th April 2001.

As already noticed, this makes available a more and more effective and efficient copyright protection, not only for the design of the future, but also for the one from the "past," with a remarkable impact on the financial assessment of this asset for all those entities that, up to now, were excluded from copyright protection and unable to claim the exclusive right of exploitation in Italy.

As a matter of fact, the principal aim of the legislator was to harmonize Italy with EC rules protecting copyright on the design works that, before the decision in C-168/09, had been clearly expressed in the opinion of the General Attorney in the case at issue. Accordingly, Italian law was regarded as inconsistent with EC regulations in excluding copyright protection

for the works that were already in public domain on 2001.

The Court has then partially upheld the conclusion by Advocate General that stated the legislation of a member state cannot impede the enforcement of copyright for those design works (having requirements to be eligible for this type of protection) that were *registered* in a member State and entered into public domain before 2001. **It is therefore now debated if, pursuant to EC-168/09, copyright can be actually enforced against the designs that were not registered in EU before 2001.**

The Court has also recognized that Article 17 of the EU Directive 98/71 must be interpreted in the sense that the Italian legislation—*either for a substantial period of 10 years or completely*—cannot refuse copyright protection for those designs that, even if entered into public domain, are eligible to this protection. It follows that copyright protection has to be enforced against a *third party who has manufactured or marketed products reproducing such design, irrespective of the date on which those acts were committed*.

The IP section of the Court of Venice has recently granted preliminary measures in favor of the Italian company Cassina, by ordering the seizure and injunction against unauthorized copies of the well known model of Le Corbousier chair "LC." The IP section prosecuted the infringement of the copyright owned by Cassina and, at same time, ordered the infringer to immediately desist from any further exploitation of the trademarks "LC" as well as to cease the use of images pertaining to the chair at issue, also through Web sites and other means. This decision is the most effective evidence of the new perspective in the Italian IP system, that finally allows to think in a different way for the future to protect and valorize the design, even if it comes from the past.

4. The Commercial Exploitation of IP Design Rights and Copyright

Once ascertained that the amended legislative frame (Industrial property code) finally provides a wider protection for copyright on design works, the purpose of this paper is also to examine the impact of said reformation in terms of commercial exploitation.

As usual, the owner of the IPR on design works has mainly three ways of exploitation:

- exploitation of the design by itself,
- assignment of IPR,
- licensing of IPR.

Both license and assignment agreements are subject to the provisions of Italian civil code (Sections 1321-1469). The assignment can be also construed as a sale agreement (sections 1470-1536 ICC), trade-in, contribution in company capital or, more in general, as any agreement able to transfer the property. The license is not regulated by any specific provisions (with the sole exception of Law No. 129 of 6th May, 2004 concerning *franchising* agreement, that is mainly regarded as a Trademark license).

The licensee, either exclusive or non-exclusive, is fully entitled to bring actions against the infringers with, or without, the concurrent participation of the licensor.

Since patent and copyright protection under Italian legislation are cumulative (Article 44 IPC), as a matter of theory, both the IPR might be covered by the scope of the same license agreement.

Nonetheless, the licensing (or assignment) of copyright on design poses a really peculiar issue. It pertains to the characteristic of the so called *artistic value* (Art. 2 copyright law) that must vest the design and that cannot be regarded as foregone. In fact, as demonstrated by the precedents mentioned in section 3, all the cases in which the Court had acknowledged and granted copyright protection concerned design works created by the most prominent designers and architects. In these cases, it was not difficult to catch the artistic value by referring to the *Curricula* of the designers, the prizes awarded by the works, and the worldwide presence in museums and exhibitions around the world.

The situation might be slightly different in the perspective of a young designer, for an item with a short commercial life, where the evidence of the artistic value of the work can be more questionable. In this case the issue is to avoid being part (either as licensor or licensee) of a copyright agreement that can be, in actual fact, considered as invalid for the lack of an appreciable scope and content (Article 1325 Civil code). It is therefore advisable to have a license covering both a registered design and the relevant copyright. In order to support the actual existence of the copyright in a strict sense, it is also suitable to describe into the agreement a short resume of the designer and its professional background.

Articles 138 and 139 of IPC also provide a peculiar type of publicity for the registered designs, to be voluntarily performed at the Italian PTO whose aim is to prevent and solve the disputes that may raise in case the same IPR are transferred to different entities, in different times.

Accordingly, article 138 "Recording" of IPC provides that "*the following documents must be disclosed*

to the public by means of recording at Italian Patent and Trademark Office."

a) Inter vivos agreements, whether free of charge or for a consideration, transferring some of all the rights on industrial property titles;

b) Inter vivos agreements, whether free of charge or for consideration, which generate, modify or transfer personal or rights of enjoyment of real property, special liens or guarantee rights. […].

Article 139 "Effects of recording" IPC also reads *"Before being recorded, deeds and judgments […] shall have no effect as to third parties having purchased and lawfully maintained rights on the industrial property title for any reason whatsoever. 2. In case of conflict among several purchasers of the same industrial property right from the same holder, the purchaser who first recorded his title of purchase shall be preferred. […]"*

Article 110 of copyright law provides that the transfer of the rights of exploitation has to be proved in written form. We will try to summarize the subject matter by comparing two design works.

The first one, on the left side of the figure shown here, is protectable for the time being under the design registration only (including Community unregistered design); the one on the right side is eligible for copyright protection.

In conclusion, here are some bullet points as reminders in approaching the licensing of patent and/or copyright design in Italy:

1. Verify the date of creation of the design work.

2. Verify the chain of control of the IPR. It means to exactly learn all the steps from the creator of the shape to the entity that finally manufactures and/or licenses (or assigns) a certain item. Despite worldwide visibility and financial relevance of the design, this is still one of the most common issues that we handle during due diligence operations, as well in the context of negotiations for the transfer of IPR, especially towards SME.

3. Ascertain in which quality the designer has rendered his professional activity in favor of the owner-licensor-assignor of IPR, *i.e.*: if he acted as independent designer or as employee.

4. Verify the compliance with the formalities provided by articles 138-139 IPC.

5. Comply with the requirement of the written form pursuant to article 110 copyright law.

6. Keep an updated "history file" of the design life, by collecting all the elements that are able to prove that a certain work acquired the features to be eligible to copyright.

7. Insert into the agreement premises a short resume of the professional background of the designer (either as individual or legal entity). ■

License Of A Registered Design	License Of The Copyright
	
Substantive requirements: Novelty (art. 32 IPC) and individual character (art. 33 IPC)	**Substantive requirements:** Artistic value
Duration: 3 years for unregistered Community design; From 5 up to 25 years for registered design.	**Duration:** 70 years after author's death for all the works created after 2001
Written form: not compulsory but strongly advisable	**Written form:** ad probationem according to article 110 copyright law
Formalities: registration of the model at Italian PTO OHIM and WIPO; Recordal of the agreements according to articles 138 and 139 Industrial Property code. ***Not compulsory but strongly advisable.***	**Formalities:** None

Software IA In The Cloud

Part 2: Records And Databases

*By Dwight Olson**

Having discussed in Part 1, one of a myriad of issues with software applications moving to the cloud, what about the issues of digital data housed in the cloud of electronic databases across the globe? Data may not be protected as IP, but it certainly is a valuable intellectual asset. In the past, data was considered owned by the licensees—at least that's what they would contend. Historically most corporate data was controlled by the software run in protected information technology (IT) departments; governance was done by IT personnel who were employees of the company and charged with the responsibilities of maintaining and securing that data.

"What do senior software executives predict about cloud computing for the next three to five years? One thing is clear: the software industry is in the middle of a major inflection point not seen since the client-server days. The year 2011 is already proving to be a decisive one for cloud software and services vendors. Like a tidal force's change in direction that affects the entire Earth, there are indicators that the world of software is shifting to the cloud. The new market reality is that—no matter their size—software vendors can no longer simply push customers to their products; rather, vendors' products need to be where their customers want to be—in the cloud."[1]

Update. Amazon struggles to restore its Web services business. "As technical problems interrupted off-site data storage provided by Amazon for a second day Friday, industry analysts said the troubles will prompt many companies to reconsider relying on remote computers beyond their control…The problems companies reported ranged from being unable to access data to sites being shut down"[2]

This is a wake-up call for cloud computing and, as Mr. Lohr points out in his article, this will be a start of the re-examination of the contracts (read here LES, licenses) that cover cloud services. So as we begin this reexamination, where are we? Can we get a handle on issues so we can help our companies and clients, be they users or vendors?

Until today, most data resided behind the walls of the company's data center where security, retention and backup were of primary concern. That is, keeping data safe from migration outside the company, keeping the data only as long as required for legal reasons (or if vital digital records, forever), ensuring data consistency (its validity, accuracy, usability and integrity), and keeping the data backed up in case of an IT data center disaster. These were the nightmares of the IT department.

■ Dwight Olson,
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To complicate these four nightmares, data is becoming a valuable asset and may be generating revenue directly by licensing (via software as a service contract) or indirectly for the company. In the cloud we might find licensors, licensees and other stakeholders fighting for revenue and access without consideration of any rules of the road. Data migrating to the cloud is moving responsibility for its governance out of the hands of the corporation and into the cloud service providers. So as we watch these new information infrastructure cloud providers emerge, where will the governance be, who will responsible, and what safety valves will we find.

Some Background

We have over the past ten (10) years just begun to learn about the Internet's potential use and dangers. We have financed billion dollar corporations such as Semantic to help us fight spam, hackers, and disasters for our pc users connected to the Internet. Who and what will we need to finance as the global information highway connects the cloud infrastructure where applications and data are distributed? Who is in the cloud infrastructure to protect data? For example, our IT departments are just learning to safely use the Internet for backup of corporate pc and server data. Many have concerns about governance over these off-site archives. Even with the data encrypted and sent securely to off-site electronic backup archives. Our IT departments may need to help provide governance

1. *www.SandHill.com* , March 9, 2011 newsletter, "The business strategy destination for enterprise software executives."

2. Saturday April 23, 2011, San Diego Union article, "Outage casts doubts on Cloud Storage" by Steve Lohr.

over the SAAS, IAAS, and PAAS service providers. If they can! Data backup of these new infrastructure cloud servers will be of co-mingled and multiple corporate data. If you're uncomfortable about your corporate data at a cloud service provider, what about that same data backed up to other cloud electronic archives? If any backup exists! For the ultimate user he/she no longer knows where the data is housed or on how many electronic archives holds the data or even how to restore?

On Security and Cryptographic

Fueled by the immense opportunity to use cloud computing by the global community there needs to be a very significant wave of security concerns. In the past, computer security remained a constant race between increased exposure of threats on one hand, and improving policies and technologies to combat them on the other. Over the past 20 years, we've witnessed numerous business re-engineering efforts, these efforts led to higher interest levels in computer security and resulted in additional functions of computer security applications. Examples include: access controls, electronic banking controls, security evaluation certification centers, anti-virus technology and distributed environments. These advances were mostly driven by the IT departments of Corporate America who were responsible for mitigating risk of the data center. But, not the cloud's.

It has been said that we are entering an era of information anywhere, anytime. The problem is that this information arena will probably include much that we do not wish to share with everyone. The full realization of this digital millennium will not come to fruition until we can conduct all of our business and personal communication transactions in a secure, trusted and reliable environment.

Public key cryptography allows for secure authenticated transactions with any party, known or unknown, with assurances of data integrity and non-repudiation of the transaction. Some of these features have been built into current Internet and cloud computing and provide a basis for the secure network needed to support electronic commerce from point to point. That is the information highway now appears to be safe, but are the application and database servers that connect to the information highway safe? Corporations that undertake to provide primary database services on the information highway and provide security and retention of cloud computing need to address the issue of retention and security of housing digital data in the cloud besides its safe secure transport.

A primary method used to address protection of data is encryption. Users and corporations who fear the consequences of losing access to cloud data must begin to understand who is responsible for what is happening in the cloud to "their" secure data. For example, a simple fact from the mid 1990s was that loss of a cryptographic key used for encryption meant loss of the data. An issue we will all watch play out as encryption is used in the cloud to protect privacy and who has access to the decryption keys in the cloud.

What was learned in the 90's might be helpful to mitigate this risk as use of encryption grows. In the past we saw a demand for a trusted third party to participate in the encryption market as one solution to protecting access to globalized encrypted data. See also, "An escrowed encryption system can use cryptography for purposes other than data encryption, for example, user authentication, data integrity, digital signatures, key establishment, and key escrow" from "A Taxonomy for Key Escrow Encryption Systems" by Dorothy E. Denning, Georgetown University and Dennis K. Branstad from Trusted Information Systems.

On Electronic Archives

The huge paper conduits that have been the nerves of commerce are being rapidly replaced by computerized messages and electronic paper. What in the world are we going to do if we do not have paper backup? Where will we find the originals? Using electronic records in replacing paper backup may make the future very different. What will be the new paper backup procedures, how will we authenticate, and will there be paper trails? For example the validity of the computer researches notebooks, or the validity of electronic records for the patent office. Just how do we replace the paper world? We have been working on these issues for years and now we will complicate the issues with globalized digital data and records.

The current practices of using computers and having paper backups for security may have resulted in bearable risks, but what happens when all we have are electronic records? For example in combination, SEC Rules 17a-3 and 17a-4 require broker-dealers to create, and preserve in an easily accessible manner, a comprehensive record of each securities transaction they effect and of their securities business in general. These requirements were integral to the Commission's investor protection function because the preserved records were the primary means of monitoring compliance with applicable securities laws, including antifraud provisions and financial responsibility standards. Recent events involving Wall Street have affirmed the need to have measures in place to protect record integrity.

On USA's SEC Example of Risk Management for Security Records

A close look at the USA's Securities and Exchange (SEC) solution to records integrity and maybe we can learn some for our cloud providers. In a letter from Mr. Michael D. Udoff in 1992, of the Securities Industry Association to the SEC, he noted that until 1970, paper was the sole medium for the preservation of Broker and Dealer (B/D) records, and in 1970 the commission amended the rule to permit microfilm, and in 1979 further amended to permit microfiche. In this letter, he has requested that the SEC Commission take no action if brokers and dealers maintain the required records only on optical disk storage and follow the requirements (outlined in his letter) for replacement of microfilm as backup.

In 1997, the Commission amended paragraph (f) of Rule 17a-4 to allow broker-dealers to store records electronically.[3] The rule, by its terms, does not limit broker-dealers to using a particular type of technology such as optical disk. Instead, it allows them to employ any electronic storage media, subject to certain requirements, including that the media "preserve the records exclusively in a non-rewriteable, non-erasable format." This requirement does not mean that the records must be preserved indefinitely. Like paper and microfilm, electronic records need only be maintained for the relevant retention period specified in the rule. See Exhibit A at the back of this article for salient parts of this ruling. Please note the bold and highlighted sections for requirements beyond just a "backup" copy. These sections deal with duplicate, verifiable, non-destructive, audited, escrowed, and third party access. Wow! So as we move to only digital data, what from the SEC might we learn?

Electronic archiving of records and databases has similar issues to the SEC. For example, one of the primary concerns is that the technology used in the future may not be compatible with current logical records and/or physical media. How many of you have a 5 ¼ inch floppy disk system? Archive (and backup) procedures for records, indexes and computer systems on behalf of a business entity is a complex issue and ideally addresses controlled access to retained materials and the audit of the corresponding software system so that the entity's electronic records are valuable and can be retrieved. In some situations, such as the SEC, the archival guidelines also must provide for an escrow agent's administrative, operational and technical system's integrity or the electronic operational structure to be highly reliable so that a copy of a deposit (or archived document) could be relied upon after retrieval, or in the event of a dispute regarding a document, for authenticity or timeliness.

Another important issue that must also be addressed is the maintenance of the sanctity and readability of the records when those records are dependent on particular and ephemeral technologies and software packages. In the absence of general and widely-accepted standards for the maintenance of long-lived electronic archives, procedures, for example, archiving of hardware and software, secure forward copying, *etc.*, must be defined to ensure that records remain secure and readable for a specified future period and, if necessary, indefinitely. For example, a business entity that uses electronic commerce would be required to archive a variety of records/documents, will generally fall into two categories: journalizing the records and actions relative to the integrity, such as in the security of the system itself, and the records that individual users engaging in their future use or protection.

There are a variety of reasons why some electronic commerce information would be archived. A few of these critical areas include but are not limited to, dispute resolution, conformance with legal requirements, tax audit, SEC compliance, banking records, historical purposes, scientific research, documents having continuing or future legal effect, wills, trusts, life estates, prevention of fraud (clinical and engineering testing, priority of invention and discovery). Many issues are yet to be discussed, but some are: ability to retrieve at some distant point in time, usefulness, access control, distributed archival, indexing, compatibility of equipment/formats, standards, archival authority, quality or level of service.

On a Global Example of Risk Management

The Internet Corporation for Assigned Names and Numbers (ICANN) must have been thinking of protecting access to global "cloud" databases and what was needed to help minimize loss of its records—that is access to all Domain Names worldwide. The current version of the ICANN Registrar Accreditation Agreement ("RAA") obliges registrars to periodically submit a copy of their registration database to ICANN or a mutually-approved third-party escrow agent. This escrowed data could be used by another registrar assigned by ICANN (or even temporarily by ICANN itself) to continue the provision of registrar services to the customers of a registrar whose accreditation is terminated or expires without renewal.

3. *http://www.sec.gov/rules/interp/34-47806.htm#P32_4611.*

The Data Escrow provision is set forth in RAA subsection 3.6, provides as follows:

> *"During the Term of this Agreement, on a schedule, under the terms, and in the format specified by ICANN, Registrar shall submit an electronic copy of the database described in Subsection 3.4.1 to ICANN or, at Registrar's election and at its expense, to a reputable escrow agent mutually approved by Registrar and ICANN, such approval also not to be unreasonably withheld by either party. The data shall be held under an agreement among Registrar, ICANN, and the escrow agent (if any) providing that (1) the data shall be received and held in escrow, with no use other than verification that the deposited data is complete, consistent, and in proper format, until released to ICANN; (2) the data shall be released from escrow upon expiration without renewal or termination of this Agreement; and (3) ICANN's rights under the escrow agreement shall be assigned with any assignment of this Agreement. The escrow shall provide that in the event the escrow is released under this Subsection, ICANN (or its assignee) shall have a non-exclusive, irrevocable, royalty-free license to exercise (only for transitional purposes) or have exercised all rights necessary to provide Registrar Services."*

Should We Be Concerned About Ownership, Future Access and Privacy of Our Data? YES!

Here is an excerpt from an email sent from AOL dated 2/20/2011 to its users on updated "Terms of Service and Privacy Policy for AOL Users." Who is the owner? Most interesting email and service license!

> *Dear AOL Users,*
>
> *AOL is working hard to change and improve the way we serve you across all aspects of our services. We have recently relaunched and improved many of our consumer experiences, including AOL.com and MapQuest.com. As we continue to improve AOL for you, some of the improvements are updating the ways that we interact with you and your information. As a result, we want to update you on our Terms of Service (TOS), which contains the agreements between you and AOL.*
>
> *In addition, we are also updating our Privacy Policy. Privacy is incredibly important to all of us and we want to present the updates to our privacy policy in a simplified format designed to help clarify what information we collect, how we use it, and the marketing preferences and online advertising choices available to you. Both the updated TOS and Privacy Policy are available online now and will take effect on March 31, 2011.*
>
> ***[Below is what was buried in the policy list]:***
>
> ***We clarify that for content you post on any AOL sites, you continue to own the content and AOL has the right to use and share your content.***

AOL is not alone, read what Google's license says. You give a license to them for all content and permission to republish.

Section *"11.1 You retain copyright and any other rights you already hold in Content which you submit, share, upload, post or display on or through, the Service. By submitting, sharing, uploading, posting or displaying the Content you give Google a worldwide, royalty-free, and non-exclusive license to reproduce, adapt, modify, translate, publish, publicly perform, publicly display and distribute any Content which you submit, share, upload, post or display on or through the Service for the sole purpose of enabling Google to provide you with the Service in accordance with the Google Docs Privacy Policy."*[4]

For Those Who Think Your Records Are Retained For You—NOT

Archiving in the cloud has been rapidly growing in popularity, offering a number of benefits, which are attractive to companies of all sizes and all industries. These benefits are especially important in these times of tighter budgets, shrinking IT teams, and increased email volume. However, security and legal compliance of cloud solutions continues to be an area of concern. Then again, who owns and who is responsible and for what? How about what the providers say about retention? Where are health care records going?

Healthcare information technology is entering a new age where Health Information Exchanges (HIEs) and the new Nationwide Health Information Network (NHIN) will provide access to Electronic Health Records (EHRs) stored at every healthcare provider, hospital, clinic and lab. At the same time, the information needs of consumers have been largely ignored. Consumers want access and control of their healthcare records. Today, Personal Health Record systems (PHRs) like Microsoft's HealthVault enable people to track some information on their own, but there is almost no access to the records stored by providers. The government is spending an unprecedented amount (over $25B just in ARRA/HITECH funds) in the current budget to make ubiquitous EHRs and HIEs a reality. However, HIEs will need to generate

4. *http://www.google.com/google-d-s/addlterms.html.*

sufficient revenue to sustain their operations. This must be a key concern of almost every HIE today.

But Then We are Safe with Corporate America—Maybe Not

Most cloud service agreements (that you click through) have a WE MAKE NO WARRANTY statement. As Microsoft summed up in its online service statement:

> *We provide the Service "as-is," "with all faults" and "as available." We do not guarantee the accuracy or timeliness of information available from the Service. Microsoft gives no express warranties, guarantees or conditions. You may have additional consumer rights under your local laws that this Service Agreement cannot change. We exclude any implied warranties including those of merchantability, fitness for a particular purpose, workmanlike effort and non-infringement.*
>
> *Programs and devices that connect with HealthVault are not endorsed or warranted by Microsoft. Product descriptions are by their manufacturers and provided for informational purposes only. We do not operate, control or supply any information, product, or service that is not clearly identified as supplied by Microsoft. This site does not provide medical or any other health care advice, diagnosis or treatment. Always seek the advice of your physician or other qualified health provider with any questions you may have regarding a medical condition, diet, fitness or wellness program. Never disregard professional medical advice or delay in seeking it because of information you accessed on or through the Service.*
>
> *You can recover from Microsoft only direct damages up to an amount you pay Microsoft for this Service. You cannot recover any other damages, including consequential, lost profits, special, indirect, incidental or punitive damages.*
>
> *This limitation applies to anything related to:*
>
> *• The Service,*
>
> *• Content (including code) on third party Internet sites, third party programs or third party conduct,*
>
> *• Viruses or other disabling features that affect your access to or use of the Service,*
>
> *• Incompatibility between the Service and other Services, software and hardware,*
>
> *• Delays or failures you may have in initiating, conducting or completing any transmissions or transactions in connection with the Service in an accurate or timely manner, and*
>
> *• Claims for breach of Service Agreement, breach of warranty, guarantee or condition, strict liability, negligence, or other tort.*
>
> *It also applies even if:*
>
> *• This remedy does not fully compensate you for any losses, or fails of its essential purpose; or*
>
> *• Microsoft knew or should have known about the possibility of the damages.*
>
> *Some states do not allow the exclusion or limitation of incidental or consequential damages, so the above limitations or exclusions may not apply to you.*
>
> *Changes to the Service; If We Cancel the Service.*
>
> *We may change the Service or delete features at any time and for any reason. We may cancel or suspend your Service at any time. Our cancellation or suspension may be without cause and/or without notice. Upon Service cancellation, your right to use the Service stops right away.*

When cloud storage providers shut down, as four have done in the past year of 2010, users are left wondering how they'll get their data back and whether they'll be able to migrate it directly to a new service provider. More importantly, analysts say, what guarantees do they have that the data stored offsite will be deleted after the shutdown. Currently, there is no direct way to migrate data to another provider, and there are no government rules or regulations specific to data managed by cloud storage providers.[5]

Over the past year, four cloud storage service providers have said they're shutting down and Amazon's cloud services have been problematic. "All of these things are coming together... to give cloud storage providers a black eye. Anyone who was on the fence about cloud storage may be off of it by now," said Gartner research analyst Adam Couture. More importantly, the closures and outages leave users with an important question: What happens to their data when the cloud they use evaporates? Currently, there's no way for a cloud storage service provider to directly migrate customer data to another provider. If a service goes down, the hosting company must return the data to its customer, who then must find another provider or revert back to storing it locally, according to Arun Taneja, principal analyst at The Taneja Group.[6]

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5. *See http://hardware.slashdot.org/stry/11/04/26/1425255/What-Happens-To-Data-When-a-Cloud-Provider-Dies?utm_source=headlines&utm_medium=email.*

6. *See http://www.computerworld.com/s/article/9216159/What_happens_to_data_when_your_cloud_provider_evaporates_.*

We have issues here in North America, perhaps globally, not only about the ownership and rights to data (generally conceded to be the property of the holder) but even the laws in Canada and the U.S. are not clear on that point even the right to mine or not mine that data. To be able to aggregate data yet to protect the secrecy of each original owner has great value. Mined and aggregated data has value, the key is to know how to protect and license appropriately. If we permit mining via license can we in the reverse license or contract that data will not be mined? In the energy service sector, the customer does not have enough data to be statistically valuable or possibly valid. Validity and value may only come when combined with other customer's data. Aggregation has value in the context of clinical health and also in oil and gas production to name just a few. Cloud computing "lets" the service provider mine data, but how do we deal with ownership, recovery, control and value propositions. Cloud computing only makes these issues more complex with loss of direct physical access over the data. We need to think clearly about the issues and perhaps include new terms in our "cloud licenses" just as ICANN did. Maybe we should think about data as "trade secrets" or provide provisions for third party audit (similar to a financial auditor) that monitors integrity. These would be a good start for LES licensing professionals.

Welcome to the cloud! ■

**Submitted on behalf of the LESI IT Ecommerce Committee.*

Exhibit A (From SEC 17 a-4) Preservation of Digital Records

(ii) The electronic storage media must:

(A) Preserve the records exclusively in a **non-rewriteable, non-erasable format**;

(B) **Verify automatically the quality and accuracy of the storage media recording process;**

(C) Serialize the original and, if applicable, duplicate units of storage media, and time-date for the required period of retention the information placed on such electronic storage media; and

(D) Have the capacity to readily download indexes and records preserved on the electronic storage media to any medium acceptable under this paragraph as required by the Commission or the self-regulatory organizations of which the member, broker, or dealer is a member.

(3) If a member, broker, or dealer uses micrographic media or electronic storage media, it shall:

(i) At all times have available, for examination by the staffs of the Commission and self-regulatory organizations of which it is a member, facilities for immediate, easily readable projection or production of micrographic media or electronic storage media images and for producing easily readable images.

(ii) Be ready at all times to provide, and immediately provide, any facsimile enlargement which the staffs of the Commission, any self-regulatory organization of which it is a member, or any State securities regulator having jurisdiction over the member, broker or dealer may request.

(iii) **Store separately from the original, a duplicate copy of the record** stored on any medium acceptable under Sec. 240.17a-4 for the time required.

(iv) Organize and index accurately all information maintained on both original and any duplicate storage media.

(A) At all times, a member, broker, or dealer must be able to have such indexes available for examination by the staffs of the Commission and the self- regulatory organizations of which the broker or dealer is a member.

(B) Each index must be duplicated and the duplicate copies must be stored separately from the original copy of each index.

(C) Original and duplicate indexes must be preserved for the time required for the indexed records.

(v) The member, broker, or dealer must have **in place an audit system** providing for accountability regarding inputting of records required to be maintained and preserved pursuant to Sec. Sec. 240.17a-3 and 240.17a-4 to electronic storage media and inputting of any changes made to every original and duplicate record maintained and preserved thereby.

(A) At all times, a member, broker, or dealer must be able to have the results of such audit system available for examination by the staffs of the Commission and the self-regulatory organizations of which the broker or dealer is a member.

(B) The audit results must be preserved for the time required for the audited records.

(vi) The member, broker, or dealer must maintain, keep current, and provide promptly upon request by the staffs of the Commission or the self-regulatory organizations of which the member, broker, or

broker-dealer is a member all information necessary to access records and indexes stored on the electronic storage media; or **place in escrow and keep current a copy of the physical and logical file format of the electronic storage media**, the field format of all different information types written on the electronic storage media and the source code, together with the appropriate documentation and information necessary to access records and indexes.

(vii) For every member, broker, or dealer exclusively using electronic storage media for some or all of its record preservation under this section, **at least one third party ("the undersigned"), who has access to and the ability to download information from the member's, broker's, or dealer's electronic storage media to any acceptable medium under this section**, shall file with the designated examining authority for the member, broker, or dealer the following undertakings with respect to such records:

The undersigned hereby undertakes to furnish promptly to the U.S. Securities and Exchange Commission ("Commission"), its designees or representatives, any self-regulatory organization of which it is a member, or any State securities regulator having jurisdiction over the member, broker or dealer, upon reasonable request, such information as is deemed necessary by the staffs of the Commission, any self-regulatory organization of which it is a member, or any State securities regulator having jurisdiction over the member, broker or dealer to download information kept on the broker's or dealer's electronic storage media to any medium acceptable under Rule 17a-4.

Furthermore, the undersigned hereby undertakes to take reasonable steps to provide access to information contained on the broker's or dealer's electronic storage media, including, as appropriate, arrangements for the downloading of any record required to be maintained and preserved by the broker or dealer pursuant to Rules 17a-3 and 17a-4.

Patent Infringement Risk Exposure Analysis

By Fadi Micaelian, Matt Huey, Richard Schank and Sanjay Prasad

Abstract

This paper analyses a company's overall exposure to patent infringement actions. While companies currently assess their risk mainly by evaluating the strength of their portfolio in certain key class codes, often referred to as heat-mapping, this paper advocates an approach that considers a statistical perspective to patent infringement litigation outcome. The rationale behind this work is that, on an aggregate basis, litigation outcome encapsulates all the factors that affect the exposure of an entity. In order to characterize this exposure we have attempted to develop some metrics around the size of the company–expressed in annual revenue. Largely based on this determination, a web application has been developed to allow users to determine several key characteristics of risk by entering basic company information. This paper explains the assumptions, determinations and applications of this analysis and is focused mainly on patent litigation occurring within the software industry.

Introduction

While patent infringement is a familiar concern across the software industry, until now it has been difficult to reduce the complexities of litigation exposure down to an easily understandable set of figures. Some companies have incorporated patent filing and licensing into their core business strategy. IBM is listed in the PTO database as the assignee of more than 40,000 issued U.S. patents, with a filing rate approaching 5,000 patents per year. While many of these inventions may not lend themselves to traditional commercial exploitation, these companies realize that patents are assets in and of themselves. IBM, Samsung and Microsoft have all become well known for their aggressive approach to patent filing. Other companies have taken a drastically different approach. Facebook, for example, despite being one of the pioneers in the realm of Social Networking, is currently the assignee of only two U.S. patents. Although such companies are situated quite differently with regards to IP portfolio, they both face similar threats from litigious patent holders looking to capitalize on the potential value of their assets.

Today, more patents are filed than ever before and predictably, this has gone hand-in-hand with patent litigation increasing at a proportional rate. Companies are forced to recognize the dangers of an unanticipated law suit (or suits) from claimants ranging from well-known industry rivals to obscure holding companies potentially leading to millions of dollars in liability. While many companies tend to settle infringement actions rather than risk a catastrophic award from an unpredictable group of jurors, negotiated settlements frequently reach tens or even hundreds of millions of dollars. It is necessary then for companies to be able to anticipate and quantify their risk of infringement so they may plan for the worst while at the same time shoring up their asset portfolio to mitigate overall risk. This may be accomplished through assignments, licensing or an increased effort to file patents concurrently or in anticipation of future research and development efforts.

Currently, a company will typically estimate their litigation exposure based on the size and quality of their IP assets. *Alison et al* finds that a patent's potential for monetization through litigation can be determined by examining a number of characteristics, including the number of claims, the rate of forward citations, the number of prior art citations, and the number of continuations filed. A company may use these factors to determine the value of their portfolio among the various class codes. The result, often referred to as a gap analysis, can be compared to the portfolio of other players in the industry to determine areas of strength and weakness. If a company's coverage is weak within an important class code when compared to their competition, they are indeed vulnerable to threats of patent infringement. Additionally, if a company's portfolio is concentrated in one key area, they may leave themselves open to threats of litigation involving ancillary technologies that were not considered during strategic planning of the company's IP. Evaluating a company's portfolio this way may help a to determine areas of weakness, however, it offers little insight into the actual likelihood of litigation or the resulting damages and costs.

Other factors identified to increase a company's exposure to patent litigation include growth rate and media coverage. A company that is experiencing a period of positive economic growth is more attractive as a litigation target simply due to the positive media attention. Similarly, while a company whose innovations become topics of media interest may ex-

perience the positive effects of public adoration, or at least awareness, their technology is now on the radar of litigious patent holders looking for an attractive defendant. Unfortunately, measuring media coverage and public awareness are difficult to quantify and by themselves, don't readily lend themselves to an infringement risk analysis.

Rather than focusing on the patent coverage of individual companies, this paper advocates a solution which considers an in-depth statistical analysis of patent litigation from the past 10 years. Although the size of company's patent portfolio is an important factor in determining its vulnerability to claims of patent infringement, the statistics of recent litigation reveal that the size of the company itself is often more telling. The larger the company, in general, the more likely they are to face threats of litigation. This is especially true in the case of patent infringement suits. Another key factor identified in calculating litigation risk is the recent litigation history of the company. If a company has faced several patent infringement suits over the past 30 months, it is likely that the company has been identified as especially vulnerable to law suits, and is therefore attractive to patent holders looking to assert their rights. Once there is blood in the water, more suits are likely to follow.

Exposure Assessment Methodology

This section describes our efforts to estimate the probability of a patent infringement action occurring. For purposes of our analysis, all infringement actions were assumed to begin with an assertion by the patentee. This assertion led to two possible outcomes. In the first outcome, the two parties successfully negotiate a settlement payment or ongoing licensing deal, avoiding any further court actions (*1-p1*). The other possible outcome is an answer by the alleged infringer which substantially denies the claims of infringement by the patentee (*p1*). From here, the process of litigation winds through various proceedings such discovery, expert testimony and oral arguments. Based on the outcome of these proceedings, one party may obtain clear advantage over the other. For example, if during discover a key piece of prior art is produced which places serious doubt on the validity of the asserted claims, the patentee will happily settle rather than risk a judgment of invalidity preventing the claims from any future assertion. If one party obtains a clear advantage during these proceedings, the parties are likely to agree to a settlement and voluntarily dismiss the case (*p2*). Where the parties are situated on an even playing field moving forward, or both sides believe they hold the advantage, ongoing litigation may be unavoidable (*1-p2*).

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The Markman hearing is considered the pivotal event in the majority of patent infringement cases. During the hearing, both sides argue their interpretation of the asserted claims. The patentee is seeking a broad, amorphous reading of the claim terms, while the accused infringer argues for a narrow, specific reading that does not include their allegedly infringing activities. Again, depending on the outcome of this hearing, that is, how the judge defines the claim terms in light of the parties' arguments, the relative positions of the parties may change dramatically leading to another opportunity for the parties to settle the matter out of court (*p3*). If the parties are still unable to meet on agreeable terms,

Figure 1. Litigation Tree With Possible Outcome And Respective Payoffs

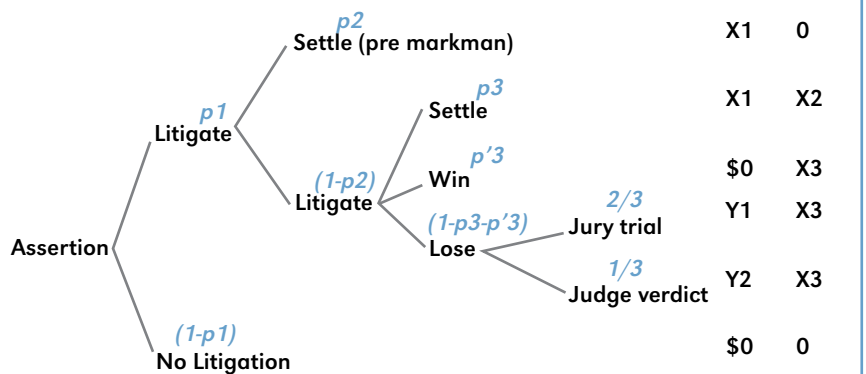


Table 1. Litigation Tree Variables

P_i	Probability of event
X1	Average Settlement. It is a function of the company size and the damage size
X2	is 1/3 to 1/2 of the litigation costs X3
X3	Litigation costs. Vary depending on the size of the damage size
Y1	Average Judgment of a Jury Trial. Depends on the company size and the damage size
Y2	Average verdict awarded by a Judge. Depends on the company size and the damage size

the case will proceed to a final adjudication on the merits. From here, we assume two outcomes: either the plaintiff wins and the court enters judgment in their favor, along with damages and sometimes costs (*p'3*), or the plaintiff fails to satisfy his burden of proof or the claims are found invalid (*1-p3-p'3*).

Recent research by *Kamprath* and *Kesan* indicates that between 80 and 85 percent of patent infringement actions are voluntarily dismissed before final adjudication, while about 10 percent reach a decision on the merits. However, because a voluntary dismissal by the Plaintiff does not necessarily indicate a settlement agreement between the parties, we elected to use the more conservative estimate of 80 percent. In our litigation tree, this data is represented by *p2*, the probability of a settlement before the Markman hearing, being equal to 50 percent, and *p3*, the probability of settlement subsequent to the Markman hearing equaling 30 percent. Adding these two probabilities together yields an 80 percent chance of litigation ending in a settlement. Cases that do reach a final decision are split down the middle, having an equal chance of a verdict or decision for the plaintiff or defendant. This data is reflected in the litigation tree, where *p`3* and *1-p3-p`3* both equaling 10 percent. We are therefore working under the assumption that all cases either settle or are finally adjudicated. While this is does not completely reflect reality, where many cases are transferred or dismissed on various grounds, for our purposes these possibilities were ignored due to the fact that they largely lead to subsequent litigation in a different forum.

Another assumption made was that 50 percent of settlements were assumed to settle before litigation began. Therefore, *p1* and *1-p1* are necessarily both equal to 50 percent. Additionally, for determining litigation costs, cases are divided among cases that settle before the Marksman hearing and cases that settle after. Of cases that settle during litigation, 63 percent were assumed to settle before the Markman hearing (*p2*), and 37 percent were assumed to settle after the Markman hearing (*p3*). Finally, it has been determined in a 2009 Patent litigation study that 66 percent of patent infringement cases are tried before a jury, and the remaining 33 percent of cases are heard by a judge.

Applying this data to the litigation tree, the following formula was developed, where S_R, J_R, and LC_R are equal to the estimated settlement (*X1*), judgment (*Y1*) and litigation cost amounts determined by revenue:

Table 2. Calculating Estimated Risk

$$0.8S_R + .1J_R + .35LC_R$$

Data Mining

The data gathered for this project was mined mainly from publicly available sources. While some sensitive information may be redacted upon request and court approval, nearly all documents filed in support of a patent infringement action are publicly available on the government-hosted website PACER (Public Access to Court Electronic Records). Within PACER, cases were filtered to include only civil cases filed within the past ten years with a nature-of-suite (NOS) listing of 830. This code is exclusively used for patent infringement actions. Based on the result from this search, a list of case titles was downloaded and examined for suits involving only defendants within the software industry. This process resulted in 91 judgment awards against software companies in patent infringement rulings.

Table 3. Judgment Data

Number of Data Points	Mean	Median	Minimum	Maximum
91	82.20	20.38	.184	1500

While judgment information is largely available from public court records, settlement data is largely undisclosed to the public. Companies tend to withhold settlement terms in order to maintain their advantageous bargaining position in future licensing efforts. For our purposes, this tends to make settlement data much more difficult to come by then judgment data. Even when settlement figures are disclosed, they are rarely contained in court documents. Instead, data was gathered from various online sources such as

Table 4. Settlement Data

Number of Data Points	Mean	Median	Minimum	Maximum
82	60.57	8.75	.09	750

Google, Law360, Westlaw and SEC EDGAR simply by searching for keywords, such as 'settlement', 'patent infringement' and 'software'. This method yielded 82 settlement figures resulting from software related patent infringement actions.

The challenge at hand is that the settlement data available represent only a skewed subset of the entire settlement population. Typically settlements are not disclosed. Organizations are obligated to disclose settlement data only when the settlement will have a significant financial impact on the overall organization. This means that in general only large settlements are made public. We will discuss later in the "Settlement Analysis" section hereafter how to assess the settlement average of the entire population, rather than the average of the skewed sample set of publicly available data.

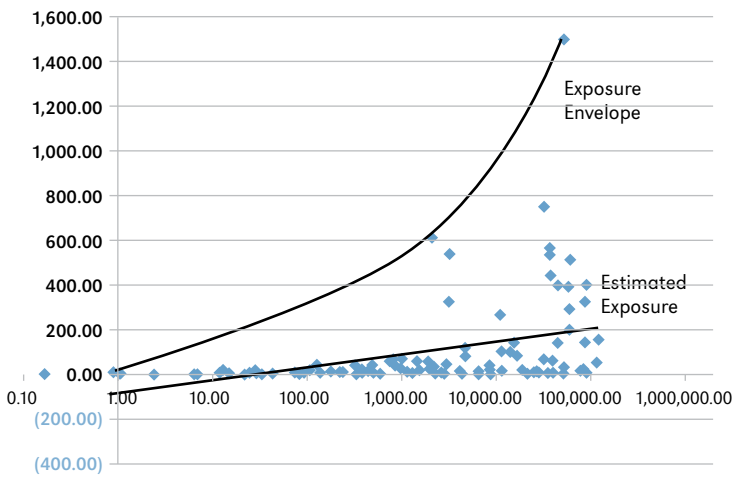
The final information mining exercise comprised gathering revenue figures for each company in our list of cases that was sued for patent infringement. To most accurately compare company revenues and litigation outcomes, it was necessary to determine specific revenue figures for the particular year in which a company was sued. For example, Apple, Inc. was sued for patent infringement in 2005, 2006, and again in 2007. It was therefore important to determine how Apple's revenue numbers changed over the span of three years to reflect the true relationship between the outcome amount and company size. For publicly held companies, revenue information was readily available from the SEC EDGAR website. Revenue information for private companies is not typically disclosed and therefore our database is comprised mainly of publicly held companies. Any private companies represented by our data have either disclosed their revenue figures or third-party estimates were used in place of official figures in Table 5.

Table 5. Revenue Data

Number of Data Points	Mean	Median	Minimum	Maximum
140	16,433	1,703	.05	118,928

Because the outcome of actions against high-revenue companies varied widely from hundreds of thousands to hundreds of millions of dollars, we elected to express the relationship in terms of outcome-over-revenue compared to revenue rather than showing a direct correlation between outcome and revenue. Taking the data as a whole, there is a very clear correlation between this ratio and the outcome of litigation. Figure 2 represents every settlement and judgment data point mapped against revenue on a logarithmic scale. A logarithmic scale is useful to mitigate the wide range of company sizes that populate our database. This chart also shows the distribution of judgment and settlement amounts clustered within discreet buckets of revenue.

Figure 2. Judgment And Settlement Data Against Revenue Scaled Logarithmically



Judgment Costs

As a starting point, it was first assumed that the outcome of patent infringement cases finally adjudicated would be binomial–either the plaintiff wins or loses. However, after looking at the distribution of judgment amounts, it has been determined that the data points are aligned on a normal distribution curve. The results are shown in Figures 3 and 4: the first graph shows judgment amounts along the normal distribution curve, while the second graph shows the normal distribution of the ratio of judgment amounts to revenue per year.

After analyzing the distribution of data points, the judgment and settlement outcomes were divided into distinct buckets based on the annual revenue of the defendant. It was determined that four groupings would maximize the

Figure 3. Probability Distribution Of Judgment Awards

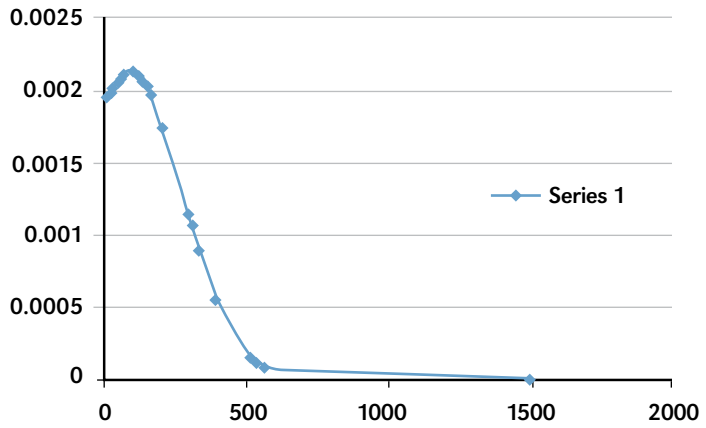


Figure 4. Distribution Of Judgment Awards Over Revenue Per Year

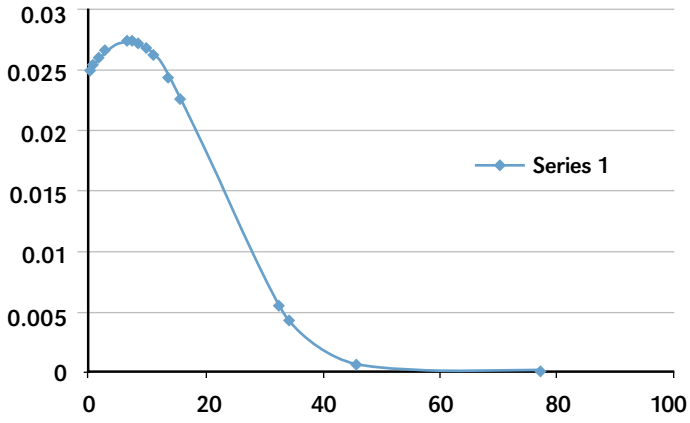


Table 6. Judgment Data By Bucket

Revenue Bucket	$0-$80M	$80M-$800M	$800M-$5B	>$5B
Mean (Judgment)	6.75	20.53	55.04	168.64

Table 7. Judgment Estimate
(x= annual revenue in Million US$)

Judgment	$J(x) = 1.0232\ Revenue^{.5}$

correlation between revenue and the magnitude of the outcome (see Table 6 and Figure 5).

After grouping the data points into buckets, the average judgment was calculated for each bucket with a significantly higher correlation. This means that the data was normally distributed within a revenue bucket centered around the average. We then used the averages of each bucket to calculate the best fit curve that traversed these data points. The high correlation in each bucket meant that the data was evenly distributed within each bucket and could therefore be represented by its average and would align nicely on a best fit curve. Because the average data points were tightly aligned between buckets, the curve showed an increasing rate of exposure while maintaining a high R^2 correlation. The results are shown in Figure 6.

As a result we concluded that the Average judgment of a company was reasonably represented by the equation in Table 7.

To validate these equations, we first determined that the overall correlation was just under 0.5. Because the data is closely aligned within the four revenue-buckets, correlation within each bucket was also calculated. While the data points were in general tightly aligned, each bucket contained outliers that had the effect of distorting the effective correlation. To compensate for these outliers, the two data points furthest removed from their expected value within each bucket were disregarded. For example, in the largest bucket, a $1.5 billion judgment was recorded against a company with annual revenues of $54 billion. The expected value of this judgment was $231 million dollars, which is only about 15 percent of the actual outcome.

The values demonstrate a markedly higher degree of correlation within the middle two buckets compared to the bucket with the largest and smallest revenues. First, this can be attributed to the high variability of outcomes in the largest bucket. After excluding the two most extreme data points, outcomes in

Figure 5. Judgment Data And Bucket Averages
(logarithmic x and y-axis)

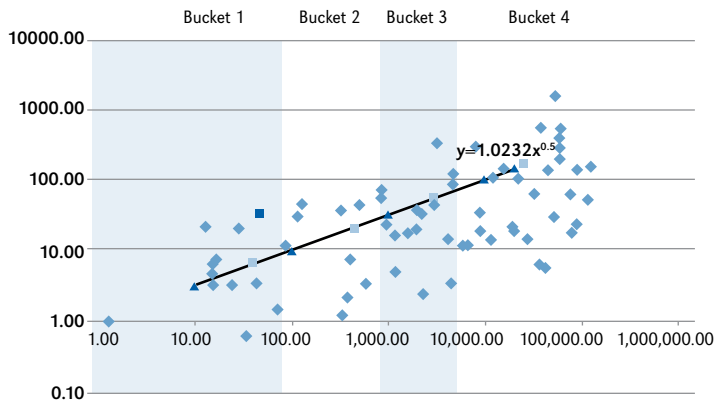


Figure 6. Average Judgment Data Per Bucket And Estimated Judgment Amounts

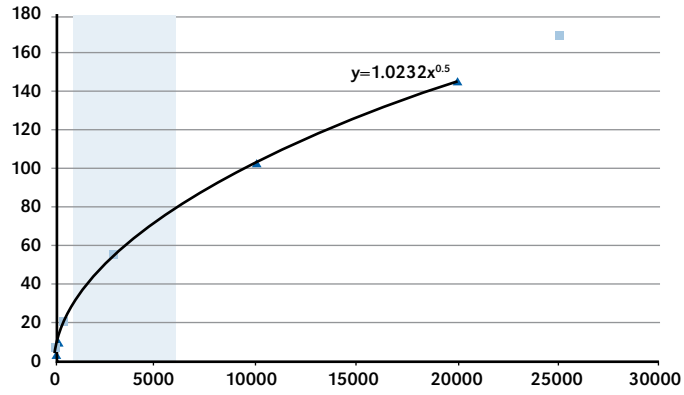


Table 8. Publicly Available Settlement Data

Revenue Bucket	$0-$80M	$80M-$800M	$800M-$5B	>$5B
Mean (Settlement)	4.63	12.09	129.56	153.23

Table 9. Hi End Settlements Estimate
(x= annual revenue in millions of dollars)

"Hi End" Settlement	$S_{HI}(x) = 0.2786 \text{ Revenue}^{0.545}$

this data set range from $6.5 million to $512 million for companies of revenue greater than $5 billion. The average calculated judgment amount within this bucket is $192 million, which represents the expected outcome in general but is not a good approximation of extreme cases. Second, within the smallest data set, the outcomes range from $630,000 to $6.5 million. While these outcomes do not appear extreme compared to the other buckets, when compared to the relatively small revenues of the defendant companies, the extremes greatly affect the correlation within the bucket.

We finally compared the R square for the equation derived from the entire data set (0.38) and found out that by using the buckets approach we obtain a higher R square (0.49). The explanation behind the result stems from business facts. The division in several buckets seems tied to the fact that large organization attract more litigation of diversified nature than smaller organization. For example non-practicing entities rarely pursue organization that falls in the lower buckets. Large organization will assert their IP rights against smaller organization both as an IP protective measure mostly. While small organization may assert their IP right both as a means to generate revenue and to protect their intellectual assets. By analyzing the possible scenarios one finds a distinct behavior towards litigation by bucket.

Settlement Costs

Settlement costs were a more complex to assess for several reasons. The most important one was that settlements were not all publicly available. The only data that is made public are Settlements that are fiscally material to an organization. This leads us to conclude that, within a bucket, these settlements are the larger end of the settlement range. This means that we only have access to a skewed set of data. The calculated average results of the skewed data set are shown in Table 8.

Using the same approach as the one followed with the judgments and given the averages per bucket the best fit curve for "Hi End" settlements can be approximated by the function shown in Table 9.

Our objective though, is to estimate the entire population settlements, not only the average of the data we collected. To achieve our goal, we assumed that, similar to judgments, settlements follow a normal distribution; our challenge is to measure the "actual average" (μ) from a set of data that represents only the tail end of the distribution in Figure 7.

The normal distribution is described by

$$f(x) = \frac{1}{2\pi\sigma^2} e^{-\frac{(x-\mu)^2}{2\sigma^2}}$$

where f(x) is the probability and x is the size of the company, μ is the mean and σ the standard deviation.

In order to figure out how far down the "right tail" of the curve was our representative sample we counted the number of cases that ended in a settlement via PACER and compared that number to the data we were able to collect for each one of those settlement cases. We noticed that we had gathered just under 15 percent of the cases that ended in settlements. Based on this data we made an assumption that we were covering all the data beyond 1 standard deviation, σ (or 15.7 percent of the data). From the distribution of the data in the tail end of the normal distribution curve, we can retrace the entire curve

$$f(x) = \frac{1}{2\pi\sigma^2} e^{-\frac{(x-\mu)^2}{2\sigma^2}}$$

using Gaussian function:

To calculate the actual average, $\mu = \alpha * \mu 1$ as a function of the measured high end average, we use the following element: The high end average $\mu 1$ is located 1/3 of the way between 1 σ and 3 σ. In other words $\mu 1 = \mu + 1.666\sigma$.

This conclusion can be derived either by measuring the area under the cumulative probability curve $\phi(x)$ below between $x = \sigma \rightarrow \infty$ and equating it to 15.7%

$$\Phi(x) = \frac{1}{\sqrt{2\pi}} \int_{-\infty}^{x} e^{-t^2/2} dt = \frac{1}{2}\left[1 + \operatorname{erf}\left(\frac{x}{\sqrt{2}}\right)\right], \quad x \in \mathbb{R}$$

for $x = -\infty -> \sigma$ $\quad \phi(x) = 100\% - 15.7\% = .843$

This can be approximated by a triangle the base of which spans from 1σ to 3σ. See Figure 8.

By calculating the area under the curve and dividing by the average $\mu 1$ we can obtain the location of this average. The calculation shows that this point is at 1/3 of the distance between 1σ and 3σ. This leads to the conclusion that we can approximate the average $\mu 1 = \mu + 1.666\sigma$. Thus,

$$\sigma = 0.6 * (1 - \alpha)\, \mu$$

If we replace σ in the cumulative distribution function $\phi(x)$ and solve the equation for the Settlement data, we obtain:

$$\alpha = \frac{1}{1 - \sqrt{2\pi}} = 0.663733727$$

In other words we can approximate the actual average of the entire population of settlements by calculating the high end settlements and multiplying the estimated result by α. It goes without saying that this is only an estimate and it applies to the sample data we analyzed under the assumption that the distribution of the entire Settlement population is normally distributed. This means that we can use the Hi End estimates and multiply these estimates by α to measure the estimated Settlement for the entire population. See Table 10.

Figure 7. Normal Distribution Curve

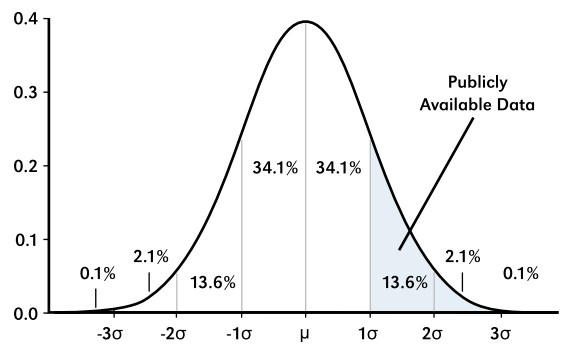
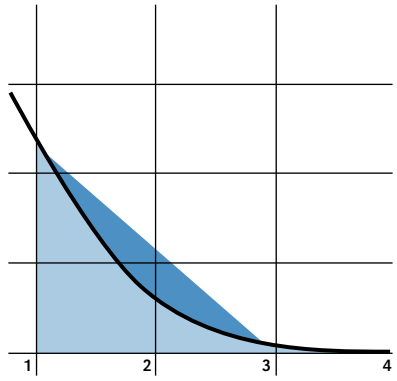


Figure 8. Tail End Of The Normal Distribution Curve



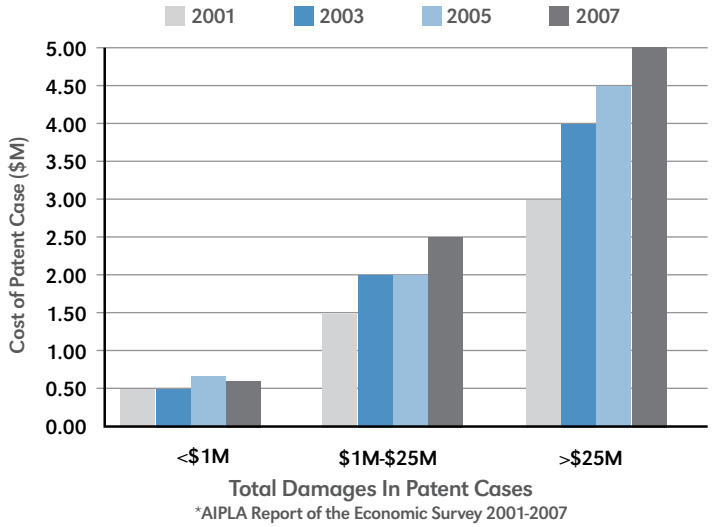
Litigation Costs

Next, it was desirable to determine the total litigation costs associated with a patent infringement trial. The litigation costs of an average patent infringement case will typically run between $3 million and $10 million over two or three years of litigation. This high cost of litigation is one factor that motivates parties to reach an agreement out-of-court, avoiding years of uncertainty and expense. A more detailed study, performed by the AIPLA, found three distinct buckets of infringement actions yielding different costs of litigation depending on the Total Damages. See Figure 9.

Table 10. Settlement Estimate
(x= annual revenue in Million US$)

Entire Population Settlement	$S(x) = 0.185\ Revenue^{0.545}$

Figure 9. AIPLA Report On Litigation Costs



*AIPLA Report of the Economic Survey 2001-2007

In our exposure model, we were interested in quantifying the cost of a litigation based on the size of the company. Given that there was a tight link between the size of the company and the size of the judgment, *i.e.* a small company with revenues of $100M could not be assessed damages of the same amount, while for a company of several billion dollars a judgment of $100M is not uncommon. Based on the fact that the bigger the company the larger the possible judgment cost will be, we transposed the data from damages to company size measured in revenues.

Using these data and their middle points we have derived the best fit curve to be in Table 12.

Table 11. Litigation Costs By Company Size

Total Damages	<$1M	$1M - $25M	>$25M
Litigation Cost	$.5M	$2M	$4M
Company Size	<$80M	$80M - $800M	>$1B

Table 12. Litigation Costs Estimate
(x= annual revenue in millions of dollars)

$Litigation\ Cost = 0.1678\ Revenue^{0.388}$

Discussions

- **Post litigation settlements**

While some data may sound redundant as a settlement occurred post verdict, we consider that the extent of the exposure of the company has been the amount of the judgment.

- **Average versus Maximum Exposure**

It can be argued that using averages does not reflect the exposure of a company. Instead of the average, the maximum envelope should be used as companies should shield themselves against the high risk events. While this argument has its merit, there are two elements to bear in mind:

a. The purpose of this exercise is to characterize the exposure and obtain some metrics around its order of magnitude for an organization. It is by no means intended to provide a specific value to exposure.

b. While a company may be exposed to a high risk event every year, over the long run it should not be subject to a high risk event repeatedly year after year. In other words, on an aggregate basis and over several years, using the estimated exposure of a company should better reflect the company's exposure than using its maximum exposure.

- **Limitations of this model**

This model was built for the software industry where there is very little benchmark on patent li-

censing. It is not clear that the model can be applied to other industries or sectors without significant modifications. It is important to note that while the model may not be applicable to other industries, the methodology used is independent of the industry and can be repurposed.

- **Exposure versus Revenue**

The exposure by itself has very little meaning for a company. What is pertinent is its impact on profits. Every company strives to achieve a certain level of profitability, often measured as a ratio of its income. Quantifying Exposure is meaningful when it is related to the size of the company. In other words, an exposure of $10M is significant for a company with revenues of $80M and profits of $8M as this exposure can mean the difference between profitability and "dipping in the red." While the impact on a company of $8B with profits amounting to $80M,the impact is significantly less.

Web Application

A web-based SaaS application has been created based on the findings and observations discussed above. The application allows a user to input company information, including annual revenue, growth rate, and recent litigation history, and returns various information related to patent infringement risk analysis (Figure 10).

The first group of data returned by the application is the result of prior litigation faced by similarly situated companies (Figure 11). The mean, median, maximum and minimum judgments and settlements of companies from within the same revenue-bucket are displayed. This helps give the user some feel of what their best or worst-case scenarios may be. Likewise, the mean and median outcomes make the user aware of what the most likely range of outcomes may be.

The next figure displayed is the company's estimated annual exposure. The following formula is used:

Figure 10. Data Entry Screen

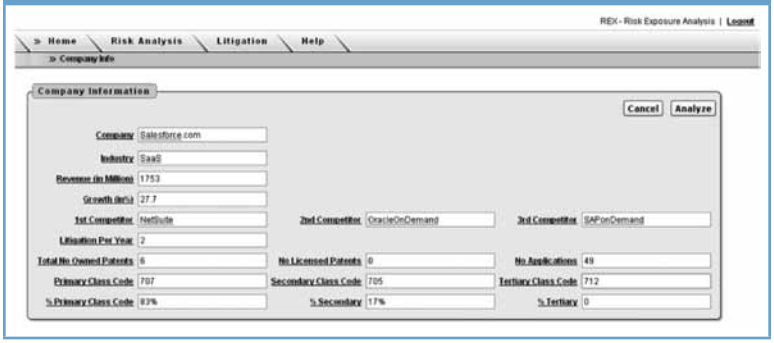
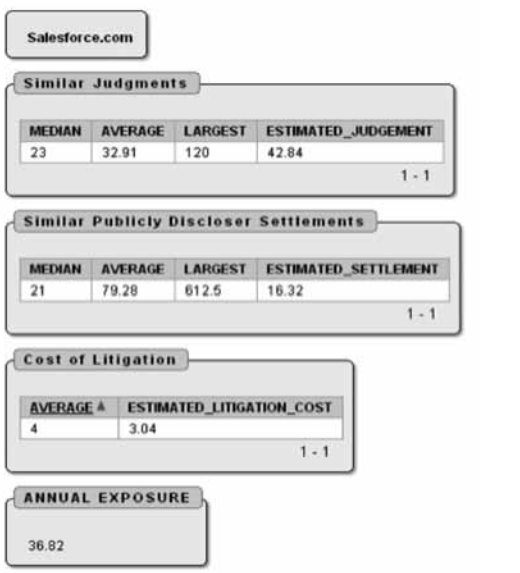


Figure 11. Exposure Analysis Screen



Estimated Annual Exposure	$R * G * L * C * 1/(P+P_L/2+P_A/3)$
R	Annual revenue in millions of dollars
G	Annual revenue growth rate as a percent
L	Number of patent infringement actions brought against the company in the past 2.5 years
P	Number of patents held by the company
P_L	Number of patents licensed to the company
P_A	Number of active patent applications held by the company
C	This number reflects the distribution of patents across various class codes

First it is important to point out that in order for the results to make any sense it is necessary to normalize them. This way we can compare revenues (R) with number of patents (P), etc. All the subsequent discussion in this section refers to the normalized data.

In order to determine the magnitude of risk, first the company's annual revenue (R) is multiplied by a fraction of the company's annual growth rate (G). This takes into consideration smaller companies that may be growing at high rates, placing themselves on the radar or potential litigants. The next factor considered is the distribution of the company's patent portfolio among the various class codes. A company with a more diverse portfolio is always better protected from threats of litigation than a company with patents isolated in a single class code. Next, the rate of patent litigation suites brought against the company (L) is included to determine who many suites are likely to be brought against the company. We then take into account the portfolio distribution over various class codes (C). A portfolio offers more coverage as it is better spread over various class codes. A portfolio focused on a single class code will leave the company with a higher exposure than a portfolio that spans several class codes. Thus, the higher the concentration in a class code, the higher the overall exposure. These factors are then divided by the strength of the company's patent portfolio, including the number of U.S. patents, the number of U.S. patent applications, and the number of assets licensed from third parties, since the larger amount of patents will yield a lower exposure. (Note that since this is based on a statistical distribution, there is no measure of the quality of the portfolio

Figure 12. Risk Meter

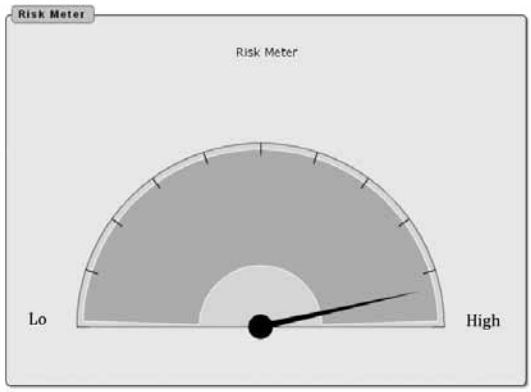


Figure 13. Litigation Database Search Screen

LITIGOUT

Reset

Advanced Search

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Plaintiff	Defendant	Symbol	Outcome	Amount	Revenue	Year	Source	Amount Per Revenue
Alcatel Lucent	Microsoft	MSFT	Judgment	512	60420	2008	E	.008474015
Alcatel-Lucent	Microsoft	MSFT	Judgment	1500	51122	2007	E	.029341575
Amado	Microsoft	MSFT	Judgment	5.91	39788	2005	E	.000148537
Burst.com	Microsoft	MSFT	Settlement	60	39788	2005	E	.001507992
David Colvin	Microsoft/Autodesk	MSFT	Judgment	133	44282	2006	D	.003003478
Eolas Technologies, Inc. and University of California	Microsoft	MSFT	Judgment	565	36835	2004	E	.015338672
Imagexpo	Microsoft	MSFT	Judgment	62.3	32187	2003	E	.001935564
InterTrust Technologies	Microsoft	MSFT	Settlement	440	36835	2004	E	.011945161
Liquid Audio	Microsoft	MSFT	Settlement	7	28365	2002	M	.000246783
Michel Vulpe	Microsoft	MSFT	Judgment	290	58437	2009	M	.004962609
Microsoft	Immersion	IMMR	Judgment	20.75	27.98	2008	D	.74157464
Microsoft	Stac Electronics	STAC	Judgment	6.86		1994	E	
Microsoft	Stac Electronics	STAC	Judgment	43		1994	E	
Netscape Communications	Microsoft	MSFT	Settlement	750	32187	2003	E	.023301333
Novell	Microsoft	MSFT	Judgment	536	36835	2004	D	.014551378
SPX	Microsoft	MSFT	Judgment	62.3	32187	2003	D	.001935564
Stac Electronics	Microsoft Corp.	MSFT	Judgment	82.9	4649	1994	D	.017831792
Stac Electronics	Microsoft	MSFT	Judgment	120	4649	1994	E	.025812003
Timeline Inc.	Microsoft	MSFT	Settlement	5	51122	2007	E	.0000978
Uniloc	Microsoft	MSFT	Judgment	388	58437	2009	E	.006639629
University of California	Microsoft	MSFT	Judgment	30.4	51122	2007	D	.000594656
VirnetX Holding Corporation	Microsoft	MSFT	Judgment	200	58437	2010	E	.003422489
Z4 Technologies	Microsoft	MSFT	Judgment	142	44282	2006	E	.003206721
i4i Ltd	Microsoft	MSFT	Judgment	200	58437	2009	E	.003422489

Spread Sheet

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Figure 14. Litigation Database Advanced Search & Reporting Screen

other than taking into account its concentration). We use in the software the weighted sum of the patents owned by the company (weight 1), the number of applications submitted (weight 1/3 as we believe that some of the applications will be denied) and finally the number of licensed patents (weight 1/2 as they do not have the exclusivity aspect of an owned patent).

In order to best represent the risk to a particular company, it is necessary to compare the magnitude of risk to the size of the company based on annual revenue. The risk of a 10 million dollar judgment is of much greater impact on a small software firm compared to a multi-billion dollar corporation like Microsoft or Google. With this in mind, we developed a revenue exposure meter (Figure 12) which would display the overall exposure to a company in relation to their overall revenue. This allows a company to look at the output of our formulae and determine the immediate impact on their company. The application also provides access to the underlying data through a standard single field search interface (Figure 13) or through an advanced search and reporting capability (Figure 14). ■

Appendix: Application user's guide

Company Information

Use the forms on this page to enter basic company information. This information is used to analyze your company's risk of patent related litigation, predict the likely magnitude of an infringement-related judgment or settlement, and identify problematic gaps in patent coverage.

Company: Enter your company name or ticket symbol

Industry: Select the industry most relevant to your business

Revenue: Enter your total annual revenue in millions of dollars

Growth: Enter your company's growth as a percentage of annual revenue

Competitors: Select up to three competitors from your industry for portfolio comparison

Litigation/year: Enter the number of recent patent infringement suits brought against your company.

Risk Analysis

Similar Judgments: This section displays judgment information against companies with similar annual revenues. The median, average, and largest judgment are derived from a litigation database comprised of similarly sized companies. The estimated judgment size is calculated with respect to a company's annual revenue based on litigation trends observed in the software industry. The coefficient of determination is equal to 0.9991.

Similar Settlements: This section displays settlement information against companies with similar annual revenues. The median, average, and largest judgment are derived from a litigation database comprised of similarly sized companies. The estimated settlement size is calculated with respect to a company's annual revenue based on litigation trends observed in the software industry. The coefficient of determination is equal to 0.9824.

Cost of Litigation: This section includes the sum of estimated attorney's fees and other related litigation expenses based on the revenue of a company. The coefficient of determination is equal to 0.9262.

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Recent U.S. Decisions And Developments Affecting Licensing

By Brian Brunsvold and John C. Paul

BAYH-DOLE DOES NOT AUTOMATICALLY GRANT UNIVERSITIES OWNERSHIP OF FEDERALLY FUNDED INVENTIONS OF THEIR EMPLOYEES

The ownership of patents rights developed with federal funding at small businesses and universities is dictated by the Bayh-Dole Act of 1980, 35 U.S.C. § 202(a). Specifically, the Bayh-Dole Act gives universities the right to "elect to retain title" to patents on inventions generated through federal funding. Most universities draft employee contracts so that they automatically obtain patent rights to inventions created by their employee through federal funding. But what happens in the absence of such a contract? Under general principles of U.S. patent law, ownership of an invention initially vests in the inventor. But some federally funded contractors have interpreted the Bayh-Dole Act to alter the standard scheme and automatically vest title to government funded inventions in the federally funded contractor. The Supreme Court of the United States recently considered this interpretation and disagreed, holding that the Act does not automatically vest title to federally funding inventions in federal contractors.

The *Stanford v. Roche* Decision

Beginning in 1988, Stanford University's Department of Infectious Diseases collaborated with Cetus, a research company, on a project to test AIDS drugs. Stanford's role in this project was federally funded. Around the same time, Stanford hired Dr. Mark Holodniy, who signed a Copyright and Patent Agreement stating that he "agree[d] to assign" to Stanford his right, title and interest in inventions resulting from his employment with Stanford. At Stanford, Dr. Holodniy conducted research into the development of an improved method for quantifying HIV levels in patient blood samples.

Some of Dr. Holodniy's research was also conducted at Cetus. As a condition of gaining access to Cetus, Dr. Holdniy signed another agreement with Cetus stating that he "will assign and do[es] hereby assign" to Cetus his right, title and interest in each of the ideas, inventions and improvements made as a consequence of his access to Cetus. At Cetus, Dr. Holodniy devised a PCR-based procedure for calculating the amount of HIV in a patient's blood. Then, at Stanford, this measurement process was tested and refined by Dr. Holodniy and other Stanford employees and a patent was filed on the measurement process. Stanford obtained assignments of patent rights from Dr. Holodniy and the other employees and subsequently secured three patents. In 1991, Roche Molecular Systems acquired Cetus's PCR-related assets and sold HIV tests kits that practice the measurement technique developed by Dr. Holodniy.

In 2005, the Board of Trustees of Stanford University filed suit in the District Court for the Northern District of California against several Roche entities for patent infringement. Roche asserted that the agreement between Dr. Holodniy and Cetus and Roche's subsequent acquisition of Cetus's PCR-related assets, made Roche co-owner of the patents derived from Dr. Holodniy's invention. As a result, Roche argued that Stanford did not have standing to sue. Stanford argued that the Bayh-Dole Act gives priority of patent rights to any invention conceived or reduced to practice by utilizing federal funds to the federal contractor and takes these rights from the inventor.

The district court, held that Dr. Holodniy's agreement with Cetus effectively assigned any rights that Dr. Holodniy had in the patented invention to Cetus, but the Bayh-Dole Act meant that Dr. Holodniy had no rights to assign. The court found that the Act "provides that the individual inventor may obtain title" to a federally funding invention "only after the government and the contracting party have declined to do so." Thus, the district court held Roche was not a co-owner, and at least with respect to the ownership of the patents, Stanford had standing to sue for patent infringement. Roche appealed to the Court of Appeals for the Federal Circuit, which found that the Copyright and Patent Agreement between Dr. Holodniy and Stanford was merely a promise to assign rights in the future but his agreement with Cetus actually assigned Dr. Holodniy's patent rights to Cetus. In addition, the Federal Circuit disagreed with Stanford's interpretation of the Act, finding that it "does not automatically void ab initio the inventors' rights in government-funded inventions," and, therefore, Roche possessed ownership in the patent

rights of these inventions. As a result, the Federal Circuit held that Stanford lacked standing to bring an infringement suit against Roche and remanded to the district court with instructions to dismiss the case. Stanford then appealed to the Supreme Court of the United States.

Before the Supreme Court, the Roche entities again argued that they possessed patent rights and Stanford lacked standing. Stanford University and the United States as *amicus curiae* argued that the Bayh-Dole Act gave priority to the government and the federally funded contractor and, if these parties decline these rights, the inventor may exercise these rights. In the majority opinion by Chief Justice Roberts, the Supreme Court looked at previous instances in which Congress divested inventors of their rights in inventions, but distinguished the Bayh-Dole Act from those instances as lacking unambiguous language of divestiture. Thus, because Congress did not intend to deprive inventors of their patent rights when employed by a federally funded contractor, the Supreme Court concluded that the Act did not provide the rights that Stanford and the United States claimed.

The Supreme Court also found that Stanford's interpretation of the Act did not accord with patent law. The Court distinguished patent law employee contracts from the employee contracts in other fields, by drawing an analogy to an autoworker. The Court stated, "No one would claim that an autoworker who builds a car while working in a factory owns that car. But, as noted, patent law has always been different: We have rejected the idea that mere employment is sufficient to vest title to an employee's invention in the employer. Against this background, a contractor's invention—an 'invention of the contractor'—does not automatically include inventions made by the contractor's employees." Accordingly, the Supreme Court affirmed the Federal Circuit's decision that Stanford lacked standing.

Strategy and Conclusion

This case provides several insights for federally funded contractors, their employees, and parties in patent litigation. When hiring employees that may create patentable material as a result of federally funded projects, contractors should consider including a provision in the employment agreement that automatically assigns all patent rights for any inventions of the employee in the course of employment. A contractor cannot rely on the Bayh-Dole Act to claim that patent rights automatically transfer. Parties in patent litigation should review the terms of any employment contracts to determine whether such a provision exists. If the agreement contains no provision assigning the patent rights or merely a promise to assign the rights in the future, a party may be able to contest the assignment of any patent rights to the employer.

Contractors should also consider the need to perform due diligence on any employee's prior or concurrent activities that may result in inconsistent assignment of inventions. For example, it is not uncommon for professors to perform consulting work or additional research for private companies. Contractors need to take special care to ensure that these arrangements do not result in the loss of rights to inventions.

ATTACKING PATENTS AS UNENFORCEABLE FOR INEQUITABLE CONDUCT BECOMES MORE DIFFICULT UNDER NEW FEDERAL CIRCUIT STANDARD

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More than a decade ago, the Federal Circuit noted with frustration that charges of inequitable conduct during patent prosecution had become an "absolute plague" on the courts and the U.S. patent system. But this pronouncement failed to stem the tide of such charges. Rather, the inequitable conduct defense grew ever more popular, becoming standard fare in already complex patent litigations. Attempting again to rein in this litigation tactic, the Federal Circuit, sitting en banc, recently tightened the standard for proving inequitable conduct in *Therasense, Inc. v. Becton, Dickinson & Co.*, 2008-1511, -1512, -1513, -1514, -1595 (Fed. Cir. May 25, 2011).

Background

In *Therasense*, the district court had found the patent-at-issue unenforceable for inequitable conduct. Tracing the doctrine's history, the Federal Circuit explained that inequitable conduct evolved from a trio of Supreme Court cases that applied the doctrine of unclean hands to dismiss patent cases involving egregious misconduct. These unclean hands cases dealt with egregious misconduct, including perjury, manufacturing false evidence, and suppressing evidence. But as the doctrine evolved, it grew to embrace a broader scope of misconduct, including merely failing to disclose information to the PTO. The doctrine of inequitable conduct also diverged from that of unclean hands by adopting a more potent

remedy, *i.e.*, unenforceability of the entire patent.

Prevailing on an inequitable conduct defense requires proving that the applicant misrepresented or omitted material information with the specific intent to deceive the PTO. Upon such a showing, the district court weighs the equities to determine whether the applicant's conduct before the PTO warrants rendering the entire patent unenforceable. For the element of intent, the Federal Circuit had previously adopted a low bar, allowing a finding of intent if the patentee knew or should have known that the withheld reference would be material to the PTO's consideration.

Likewise, the Federal Circuit had previously adopted a low bar for materiality, allowing a finding of materiality if there was a substantial likelihood that a reasonable examiner would consider the reference important in deciding whether to allow the application. Additionally, the Federal Circuit had previously placed intent and materiality together on a sliding scale, allowing a finding of inequitable conduct based on a reduced showing of intent if there was a strong showing of materiality, and vice versa. As the Federal Circuit noted, this sliding scale approach had the effect of conflating and diluting the standards for both intent and materiality.

Unintended Negative Consequences

By lowering these standards, the Federal Circuit intended to foster full disclosure to the PTO. But this led to variety of unintended consequences, the biggest of which was the explosion of inequitable conduct charges as a litigation tactic. In a lengthy discussion, the Federal Circuit enumerated some of these unintended consequences.

A mere charge of inequitable conduct changes the face of a suit. For example, it conveniently expands discovery into corporate practices before patent filing and disqualifies the prosecuting attorney from the patent owner's litigation team. And because the doctrine focuses on the moral turpitude of the patentee with ruinous consequences for the reputation of his patent attorney, it discourages settlement and deflects attention from the merits of validity and infringement issues, the Federal Circuit explained. Inequitable conduct charges increase the complexity, duration, and cost of patent cases, which are already notoriously complex and expensive.

A finding of inequitable conduct can be even more disastrous. Notably, the remedy is the "atomic bomb" of patent law: A finding of inequitable conduct regarding any single claim renders the entire patent unenforceable. And, according to the Federal Circuit, the taint of a finding of inequitable conduct can spread from a single patent to render unenforceable other related patents and applications in the same technology family, endangering a substantial portion of a company's patent portfolio.

In addition, a finding of inequitable conduct can have far-reaching consequences not limited to only the case being tried. For example, a finding of inequitable conduct may also spawn antitrust and unfair competition claims. And prevailing on a claim of inequitable conduct often makes a case "exceptional," leading potentially to an award of attorneys' fees under 35 U.S.C. § 285. Finally, the Federal Circuit noted, a finding of inequitable conduct may also prove the crime or fraud exception to the attorney-client privilege.

Patent prosecutors, who constantly face the possibility of inequitable conduct charges, have responded by regularly burying the PTO examiners in prior art references, most of which have marginal value, according to the Federal Circuit. Applicants disclose too much prior art for the PTO to consider each one meaningfully, and do not explain its significance, all out of fear that to do otherwise risks a claim of inequitable conduct. This flood of information strains the agency's examining resources and directly contributes to the PTO's backlog of applications.

Facing these numerous consequences, the Federal Circuit tightened the standards for inequitable conduct in an attempt to right the course. Under this new, stricter standard, an accused infringer must prove by clear and convincing evidence that the applicant acted with the specific intent to deceive the PTO, *i.e.*, the applicant knew of the reference, knew that it was material, and made a deliberate decision to withhold it. In addition, the accused infringer must prove "but-for" materiality, meaning that the PTO would not have allowed a claim had it been aware of the undisclosed prior art. And these requirements are separate; courts can no longer use the sliding-scale approach.

Strategy and Conclusion

The Federal Circuit noted that because the accused infringer bears the burden of proof, the patent owner need not offer any good-faith explanation unless the accused infringer first proves a threshold level of intent to deceive by clear and convincing evidence. Thus, accused infringers will face a much higher obstacle to successfully raising an inequitable conduct defense.

In the same vein, a patent owner will find it easier to enforce its patent rights without the looming fear of having to battle an unfounded claim of inequitable conduct.

Finally, protected by a higher standard for both

materiality and intent, patent prosecutors acting in good faith will be able to more effectively submit and comment on relevant prior art without feeling the need to submit mountains of paper "just in case."

FORUM SELECTION CLAUSE IN TWITTER'S CLICKTHROUGH SOFTWARE AGREEMENTS FOUND INSUFFICIENT TO LIMIT VENUE IN PATENT INFRINGEMENT SUITS TARGETING THE TWITTER SOFTWARE

Clickthrough agreements—often encountered when installing software downloaded from the internet or purchased on discs from software companies—typically set forth the rarely reviewed terms of use for software used by the general public. To avoid the inconvenience of being hauled into court in another state or a foreign country based on sales to customers in that state or country, software providers will often draft their clickthrough agreements to include forum selection clauses that specify the venue and jurisdiction for resolution of disputes arising in connection with the software or service provided.

In a recent decision in *VS Technologies, LLC v. Twitter, Inc.*, No. 2:11-cv-00043 (E.D. Va. June 28, 2011), the U.S. District Court for the Eastern District of Virginia found that one such forum selection clause in the clickthrough agreement for Twitter's social networking software did not dictate jurisdiction for patent disputes relating to Twitter. The court reasoned that the clause did not expressly contemplate federal jurisdiction and, therefore, did not extend to patent disputes involving Twitter's software. Furthermore, the court refused to establish a blanket rule permitting online service providers to limit the venue in patent litigations based on the acceptance of clickthrough agreements by employees of opposing corporate parties.

The VS Technologies Decision

Dinesh Agarwal patented a method and system for creating an interactive social network and assigned the patent to his Virginia corporation, VS Technologies, LLC. In January 2011, VS filed a patent infringement suit against Twitter, Inc. in the U.S. District Court for the Eastern District of Virginia, alleging that Twitter's social networking software infringed the patent. In its motion for transfer, Twitter argued that VS was bound by Twitter's forum selection clause because Agarwal agreed to its terms when he created a Twitter account in January 2010. Twitter's forum selection clause designated the Northern District of California as the sole venue for claims arising in connection with Twitter's online services.

According to Twitter, Agarwal's patent infringement claims arose "in connection with Twitter's online service," and, thus, the forum selection clause should limit the venue for those claims. To support its argument, Twitter cited recent opinions from other districts holding that the forum selection clause at issue in those cases governed a plaintiff's patent infringement suit. Twitter also argued that its forum selection clause—which required that claims "be brought solely in San Francisco County, California"—invoked federal jurisdiction because a federal district court resides in San Francisco. Finally, Twitter argued that because the forum selection clause expressly provides for venue in "such courts" of San Francisco County, the presence of the plural term "courts" demonstrates that the forum selection clause contemplated both state and federal courts.

The court was not persuaded that the forum selection clause encompassed patent disputes in federal courts, reasoning that Twitter's clickthrough agreement controlled a Twitter customer's "access to and use of" Twitter's services and Web site, not related patent infringement claims. Distinguishing the cases relied on by Twitter, the court pointed out that the clauses at issue in those cases, unlike Twitter's forum selection clause, expressly contemplated federal jurisdiction. Therefore, because VS's patent infringement claims were not based on VS Technologies' or Agarwal's "access to and use of" Twitter's online services, those claims were outside the scope of the Twitter forum selection clause.

The court also refrained from setting precedent that the acceptance of an online service provider's clickthrough agreement by an employee of an opposing corporate party in patent litigation limited the venue for such litigation to the venues set forth in the agreement's forum selection clause. The court reasoned that such precedent would "potentially foster satellite litigation in every patent case involving a social networking participant." Highlighting the dangers of granting Twitter's motion, the court stated that if it decided that a social networking market participant can limit the forum in which it can be sued for patent infringement via Terms of Service governing "access to and use of" that social networking market participant's Web site and services, foreseeably, other District Courts in similar cases will be called upon to decide whether other plaintiff's employees ever agreed to online Terms of Service, whether those Terms of Service contained a forum selection clause, whether any such forum selection clause was enforceable, and . . . whether that forum selection clause contemplated coverage of patent infringement claims."

Strategy and Conclusion

Venue remains a battleground for parties seeking to avoid litigation outside their home state. VS Technologies illustrates how standard forum selection clauses are not universally applicable and that expressly including specific situations in forum selection clauses may increase likelihood that those clauses would apply to a broader range of situations.

INVENTORS' ASSIGNMENT OF ALL "INVENTIONS AND DISCOVERIES" IN A PATENT APPLICATION RESULTED IN ASSIGNMENT OF UNRELATED PATENTS

In most assignment agreements, parties will seek to explicitly set forth the particular patents or applications being sold. It is not uncommon, however, for parties to want to extend such assignments to encompass rights beyond what is listed in the agreement. For example, parties may want to include future continuation applications or other patents in the same family as the identified patents or applications. In some instances, parties will draft the assignment agreement to include not just rights in an application itself, but also rights in any "inventions" or "discoveries" in those applications. Parties may not always appreciate, however, how the use of such terms can extend the rights being assigned. In the recent case, *MHL Tek, LLC v. Nissan Motor Co.*, Nos. 10-1287, -1317, -1318 (Fed. Cir. Aug. 10, 2011), the Federal Circuit held that an assignment of "inventions and discoveries" in a patent application assigned rights not only to the patent application but also to an unrelated patent applications whose claims were supported in the disclosure of the subject application.

Background

Two individual inventors developed a tire pressure monitoring system ("TPMS") that monitors tire pressures and transmits that information to the operator of a vehicle. The inventors ultimately received three patents directed to TPMS. Two of the three patents ("the Common-Parent Patents") shared an identical specification and claimed priority to a single parent application (the "Parent Application"). The third patent (the "Unique-Specification Patent") was directed to a similar system but had a different specification than the common-parent patents and did not claim priority to the parent application.

In 1993, the inventors assigned the "inventions and discoveries" in the Parent Application to Animatronics, Inc. In 1995, Animatronics entered into a development agreement with McLaughlin Electronics, under which McLaughlin was assigned rights to the "inventions and discoveries" in the Parent Application. The development agreement had an express "carve-out" provision, however, under which Animatronics retained ownership of certain proprietary inventions in the Parent Application. These proprietary inventions related to certain components of the TPMS, but not the entire TPMS itself.

About a decade later, the inventors attempted to assign the Common Parent Patents and the Unique-Specification Patent to MHL Tek, LLC. MHL Tek then sued various auto manufacturers alleging infringement of the three patents. Realizing that Animatronics may possess rights in those patents, MHL Tek negotiated an assignment from Animatronics for those patents as well. In a series of opinions, the trial court ruled that the inventors had assigned their rights in the Common-Parent Patents to Animatronics which, in turn, assigned those rights to McLaughlin. The court held that these patents were directed to an overall TPMS and therefore did not fall in the scope of the carve-out provision. Therefore, the assignments of the Common-Parent Patents to MHL Tek from Animatronics and the inventors were ineffective and MHL Tek could not sue the auto manufacturers for infringement of those patents. The trial court held, however, that the Unique Specification Patent was not included in the scope of the assignment from the inventors to Animatronics. Therefore, MHL Tek did have standing to assert at least the Unique-Specification Patent. The case proceeded on that patent alone with the district court ultimately determining that the defendants did not infringe the Unique-Specification Patent.

The MHL Tek Decision

On appeal, the Federal Circuit first addressed whether MHL Tek had standing to assert the Common-Parent Patents. MHL Tek argued that those two patents were carved out of the assignment to McLaughlin because certain limitations of the claims of those patents "concerned" Animatronics' proprietary inventions. The Federal Circuit rejected this argument, holding that the claims were not directed to the proprietary inventions but rather to the TPMS generally. Therefore, it affirmed the district court's ruling that MHL Tek did not have standing to assert those patents because McLaughlin remained the sole assignee and interest holder.

The Federal Circuit then considered whether the Unique-Specification Patent was encompassed by the assignments of "inventions and discoveries in the [Parent Application]" to Animatronics and then McLaughlin. MHL Tek argued that because the Unique-Specification Patent was clearly not a child of the parent application, it was not encompassed by

the "inventions or discoveries" language. The Federal Circuit disagreed, however, noting that the assignment was broader than just applications related to the Parent Application. Instead, it covered all inventions and discoveries disclosed in the Parent Application. Thus, it was necessary to compare the claims of the Unique Specification Patent with the specification of the Parent Application. If the written description of the Parent Application reasonably conveyed the substance of the invention claimed in the Unique-Specification Patent, then it would be included in the scope of the assignment. Under this analysis, the Federal Circuit found that because all the limitations of the claims of the Unique-Specification Patent were disclosed in the Parent Application, ownership of that patent had been assigned to Animatronics and then McLaughlin. Therefore, MHL Tek was not assigned rights in that patent and did not have standing to sue for infringement.

Strategy and Conclusion

The Federal Circuit determined that the language in the assignments to Animatronics and McLaughlin demonstrated an intent to assign not only patents in a common family, but also a patent in an unrelated family. This was because the assignment included not only the Parent Application but also all "inventions and discoveries" in that application. The court found that this language could encompass patents outside the scope of that family if the claims of those unrelated patents had support in the related patents. If the parties had intended only to assign patents in the family of the Parent Application, more precise language may have prevented the assignment of unrelated patents. Thus, parties should draft grant clauses to ensure that the patents being licensed or assigned, and only those patents, are covered by the grant.

In MHL Tek, much of the confusion regarding standing concerned the development agreement between Animatronics and McLaughlin. Well before the instant litigation, the relationship between the two had deteriorated and there appears to have been some dispute as to the proper disposition of intellectual property rights after termination of that relationship. And, of course, the court ultimately determined the McLaughlin remained the assignee of the patents originally conveyed to Animatronics. Such disputes can often be avoided by the inclusion of clauses in a development agreement addressing the disposition of rights after termination of the development agreement. In addition, negotiation of an appropriate separation agreement after termination of the relationship that clearly delineates the ownership of intellectual property can also avoid such disputes. Thus, parties should consider post-termination rights when drafting license agreements or assignments accompanying development agreements.

LETTERS THREATENING A COMPETITOR'S CUSTOMERS WITH PATENT INFRINGEMENT ARE INSUFFICIENT TO SUPPORT DECLARATORY JUDGMENT JURISDICTION OVER THE COMPETITOR

Recent decisions from the Federal Circuit have clearly established that letters threatening an infringement suit sent to an entity are sufficient to allow that entity to bring a declaratory judgment action seeking to have the patent held invalid or not infringed. It has been less clear, however, whether letters sent only to customers of an entity would also support declaratory judgment jurisdiction in an action brought by that entity. In *Creative Compounds, LLC v. Starmark Laboratories*, No. 2010-1445 (Fed. Cir. Jun. 24, 2011), the Federal Circuit sheds some light on this question.

The *Creative Compounds* Decision

Creative Compounds, LLC ("Creative") and Starmark Laboratories ("Starmark") are competing manufacturers of creatine products. Creatine is an amino acid derivative naturally present in muscle tissue, and is often taken as a supplement by athletes seeking a non-steroidal means for improving athletic performance. Both Creative and Starmark sought patents for an improved creatine formulation, one derived from hydro-soluble creatine salts. Starmark's application, however, claimed the genus of possible creatine salts, while Creative's was narrower and only covered dicreatine malate compounds. Starmark's application had a dependent claim directed towards Creative's species.

Being the first to receive a notice of allowance, Starmark sent a letter to its dicreatine malate products customers, advising them of the existence of Starmark's recently allowed patent. Viewing its competitor's maneuver as a threat, Creative responded by mailing its own letters, advising those same customers of Creative's recently allowed patent on those specific compounds, and, through patent counsel, claiming that Starmark's patent was invalid based on Creative's work. Creative did not, however, send one of these letters to Starmark.

Eventually, Creative sought declaratory judgment that Starmark's patent was invalid and not infringed. Starmark counterclaimed, alleging infringement of its patent and seeking a declaratory judgment that Creative's patent was invalid. Ultimately, the district court granted summary judgment on both of Starmark's claims.

In determining whether the district court properly exercised declaratory judgment jurisdiction over Starmark's claim that Creative's patent was invalid, the Federal Circuit first considered the letters that Creative sent to customers in the industry, specially, those letters from Creative's patent counsel asserting that Starmark's patent was invalid in view of the work that gave rise to Creative's patent. Contrary to the district court's assertion that the dispute regarding Creative's patent and Starmark's patent "runs with the patents," the Federal Circuit found that the requisite actual controversy did not exist. In its letters, Creative never accused Starmark of infringing Creative's patent. And any threats against Starmark's customers would, at most, only affect Starmark's economic interest in clarifying its customers' rights under Creative's patent. This could not serve as the actual controversy required by the Declaratory Judgment Act. Moreover, without the threat of an infringement suit from Creative, Starmark could also not establish that there was an underlying legal cause of action affecting adverse interests of sufficient immediacy and reality to warrant issuance of a declaratory judgment—*i.e.*, there was not a substantial controversy.

Interestingly, Starmark contended that a legal cause of action, sufficient to support declaratory judgment jurisdiction, could be made out under 35 U.S.C. § 291 regarding whether the parties' patents claim interfering subject matter. Unfortunately for Starmark, a district court lacks jurisdiction under § 291 unless an interference is established. And in this case, neither party established existence of an interference, nor sought adjudication of common claimed subject matter. In fact, Starmark took the exact opposite position, arguing that the subject matter was not-interfering in order to hold Creative to the higher burden of proof when adjudicating the validity of Starmark's patent. Thus, the Federal Circuit reversed the district court's holding of invalidity of Creative's patent, finding lack of jurisdiction due to the absence of a substantial controversy between the parties concerning an adverse legal—as opposed to economic—interest.

Strategy and Conclusion

In *Creative Compounds*, the Federal Circuit confronted letters sent to nearly all of Starmark's customers, which suggested that products supplied by Starmark could be infringing, and undeniably claimed that Starmark's patent was invalid. In spite of this, the Court held that only Starmark's economic—as opposed to its legal—interests were implicated; thus, declaratory judgment jurisdiction was improper. A caveat should be added considering that the Court did question whether Starmark could have "customers" in light of the fact that it only began operations after Creative's letter. That notwithstanding, Starmark's CEO was the inventor named on Starmark's patent, and Starmark (or its predecessor) had enough ties to the industry to send similar letters to its eventual customers before Creative's letter. The fact remains that only Starmark's economic interests would be undermined in either case, so the bottom line remains that economic interests are insufficient for declaratory judgment jurisdiction. Thus, letters sent to customers—even if those letters threaten an infringement suit—probably do not establish an actual controversy sufficient for declaratory judgment jurisdiction.

Although the situation may not frequently arise, the Federal Circuit did not discount the possibility that a declaratory judgment action could be supported based on the actual controversy of an interference. Rather, in order to make such a showing, either the existence of the interference must be established, or a party must seek adjudication of common claimed subject matter. Absent either of these two showings, however, *Creative Compounds* demonstrates the declaratory judgment jurisdiction based on an alleged interference is improper. Thus, for an interference under § 291 to support declaratory judgment jurisdiction, the interference must be established.

PATENT OWNER'S ALLEGATION OF COPYING, DEMAND FOR CUSTOMER INFORMATION, AND THREAT NOT TO TOLERATE A DELAYED RESPONSE EMPOWERS INFRINGER TO ATTACK PATENT VALIDITY IN COURT

When a party is concerned about possible infringement of another's patent rights, it may want to have a court decide whether that patent is valid or infringed rather than potentially incurring liability while waiting to see if the patent owner will sue. Federal statute permits such actions, but only when there is an "actual controversy" between the parties. Historically, this required a threat of suit by the patent owner. But in a 2007 case, *MedImmune, Inc. v. Genentech, Inc.*, the Supreme Court of the United States held there was no such bright-line rule. Rather, courts should look at all the circumstances and decide whether there was a real dispute between the parties rather than just a hypothetical dispute. A recent case, *Triteq Lock & Security LLC v. HMC Holdings LLC*, No. 11 C 843 (N.D. Ill. July 5, 2011), provides guidance on this issue.

The *Triteq* Decision

Triteq purchased and resold locking pistol boxes from HMC. But in early 2010, Triteq decided to begin manufacturing its own boxes.

During a litigation between Triteq and entities related to HMC, Triteq sent a letter to the Chief Financial Officer of HMC, questioning whether his response to certain subpoenas was complete. In responding, the CFO also noted that he wanted to provide Triteq "with formal notice on two other unrelated matters that require immediate attention." Specifically, the CFO said that Triteq was using certain HMC logos without permission, and also said:

> Secondarily, it would appear that Tri-Teq is selling a RouTeq safe that is a direct copy of an HMC patented pistol box. U.S. Patent No. U.S. D461,955 S. *http://www.triteqlock.com/products3.html*. Tri-Teq does not have authorization to manufcature [*sic*] from HMC, nor has Tri-Teq paid for the delivery of a small batch of said boxes from HMC. First, Tri-Teq must either pay for the units delivered, or return them in their original condition. Second, Tri-Teq must cease from ony [*sic*] further sale and advertisement of said box. Furthermore, it is requested that Triteq hand over all records of any sales of this Box since January 15, 2006, the customers' names and contact details, dollar amounts and any open orders, as well as who may [*sic*] contracted for its manufacture. Failure to promptly respond to this very serious breach of our patent rights will not be tolerated. A response within 7 days from receipt of this letter is required.

Triteq responded to this letter by suing HMC and asking the court to declare that HMC's patent was invalid. HMC asked the court to dismiss the case, arguing that the court had no jurisdiction because there was no actual controversy and that Triteq was using the declaratory judgment action to gain leverage in the pending litigation between Triteq and the entities related to HMC.

In considering HMC's request, the court noted that the *MedImmune* case requires a court to take into account the circumstances as a whole in determining if a justiciable controversy exists. Declaratory judgment jurisdiction generally does not arise just because a party learns of the existence of a patent owned by another or perceives that there is a risk of infringement, "without some affirmative act by the patentee." But jurisdiction may be met "where the patentee takes a position that puts the declaratory judgment plaintiff in the position of either pursuing arguably illegal behavior or abandoning that which he claims a right to do." In other words, "when a patent holder claims rights under a patent based on certain identified activity of another party, and that party asserts that it has the rights to engage in that activity without a license from the patent holder, jurisdiction lies."

Given the circumstances in this case, the court held there was an actual controversy between the parties because the letter from HMC's CFO to Triteq put Triteq in the position of either pursuing arguably illegal behavior by continuing to sell its pistol boxes, or abandoning those sales. The court highlighted several aspects of the letter to support its holding. First, the CFO of HMC told Triteq that it appeared Triteq's pistol box was a "direct copy" of HMC's pistol box and provided a specific patent number that he contends applies to that box. The CFO also requested the names and contact information of Triteq's customers. Finally, the CFO "required" a response within seven days and warned that a "breach of our patent rights will not be tolerated." According to the court, these assertions were sufficient to give the court jurisdiction over Triteq's claims.

The court disagreed with HMC's argument that these assertions were an "equivocal" statement and not an accusation of infringement. The court reasoned that, given the request for customer information, it would have been reasonable for Triteq to be concerned that HMC may approach its customers and suggest that its product infringed HMC's patent. The court also thought it was reasonable for Triteq to fear that a patent infringement suit was imminent.

HMC also argued that the court should decline the declaratory action because it was an attempt to gain leverage in the pending suit between Triteq and the entities related to HMC. The court disagreed, however, finding no evidence that Triteq brought the declaratory judgment action in an effort to improve its position in the other, unrelated suit. Therefore, the court denied HMC's motion to dismiss for lack of subject-matter jurisdiction.

Strategy and Conclusion

The courts continue to provide guidance on what kind of statements and actions can empower patent validity attacks. A letter from a patent owner may create an actual controversy between the parties and empower the recipient to attack the validity of that patent when it makes strong assertions that the accused product is a "direct copy" of a product covered by a specific patent, makes demands sales and customer contact information, and states that a failure to respond within a certain period of time will not be tolerated.

PATENT LICENSES ARE PRESUMED TO INCLUDE CONTINUATION PATENTS WHEN SAME PRODUCTS ARE AT ISSUE

Settlement agreements often include covenants not to sue or licenses addressing the specific products and patents at issue in the lawsuit. These may often be accompanied by a general disclaimer of rights under any other intellectual property. Recently, in *General Protecht Group, Inc. v. Leviton Manufacturing Co.*, No. 2011-1115 (Fed. Cir. July 8, 2011), the Court of Appeals for the Federal Circuit held that a covenant not to sue under two specific patents granted in a settlement agreement impliedly included rights under continuations of those patents with respect to the products specifically licensed under the settlement agreement. The Federal Circuit held that it should be presumed that the parties intended to include such patents absent some clear indication of mutual intent to the contrary.

The *Leviton* Decision

In 2004 and 2005, Leviton Manufacturing sued General Protecht Group ("GPG") and three other defendants for infringement of two of Leviton's patents. In 2007, the parties entered into a confidential settlement agreement to end the litigation. As part of the agreement, Leviton agreed not to sue GPG for infringement of the two patents with respect to certain of GPG's current and future products. The agreement also provided that "[a]ny dispute between the Parties relating to or arising out of [the settlement agreement] shall be prosecuted exclusively in the United States District Court for the District of New Mexico."

In 2010, Leviton filed complaints against GPG in the International Trade Commission ("ITC") and the U.S. District Court for the Northern District of California, alleging infringement of two different patents, which were continuations of—*i.e.*, patents sharing the same specification as—the patents asserted in the earlier litigation between Leviton and GPG. These continuation patents had issued after the earlier litigation was terminated. In response to Leviton's complaint, GPG asserted that it believed it had an implied license to the continuation patents by virtue of the settlement agreement and that Leviton was required to bring any suit for infringement in the District of New Mexico pursuant to the forum selection clause in the agreement. When Leviton refused to agree, GPG filed suit in the District of New Mexico, asserting declaratory-judgment claims for breach of contract, non-infringement, and invalidity, and seeking an injunction against Leviton's litigation of the dispute outside of New Mexico. The district court found that GPG was likely to succeed on its implied license defense and thus entered a preliminary injunction against Leviton prosecuting its suit outside of the District of New Mexico.

On appeal, the Federal Circuit focused on GPG's implied license defense, which was based on the doctrine of "legal estoppel." This doctrine prohibits a licensor from licensing someone a property right, such as a patent, for valuable consideration and then seeking to take back the rights granted, usually by asserting another, separate patent. The Federal Circuit began by addressing its leading case in this area, *Transcore v. Electronic Transaction Consultants Corp.*, 563 F.3d 1271 (Fed. Cir. 2009). In Transcore, the Federal Circuit, applying legal estoppel, prevented a patent owner from asserting a later-issued patent against the recipient of a covenant not to sue from the patent owner on two earlier-issued patents where the patent owner alleged that the practice of the earlier-issued patents would necessarily infringe the later-issued patent. The court reached this decision despite the fact that the agreement at issue included an express provision providing that the covenant not to sue did not apply to later issued patents. The court reasoned that while such a clause may protect against broad claims that future patents in general are licensed, it does not permit the patent owner to detract from the rights it granted.

On appeal, Leviton argued that the doctrine of legal estoppel should not apply to it because unlike the situation in *Transcore* where the licensee could not practice its license without infringing the asserted patent, in this case the claims of the later-issued patents (the continuations) were narrower. Thus, it would be possible to practice the licensed patents without infringing the continuations. Therefore, it did not truly detract from the rights grants.

The Federal Circuit noted, however, that the continuations had the same disclosure as the licensed patents. Thus, by definition, they must have claims directed to the same inventions. In addition, the very same products licensed by the settlement agreement were being accused of infringement in this case. Therefore, the Federal Circuit held that the assertion of the continuations was a derogation of the rights previously granted. The court went on to note that when "continuations issue from parent patents that have previously been licensed as to certain products, *it may be presumed* that….those products are impliedly licensed under the continuations as well." (emphasis added). Such presumption would only be

overcome by a clear indication of a mutual intent to the contrary in the agreement.

Leviton attempted to argue that there was a showing of mutual intent to permit future suits on related patents in the language of the agreement. The Federal Circuit noted that the agreement did manifest an understanding that future litigation concerning related patents was a distinct possibility. But noted that in Transcore, there was also a reservation of rights that the court found ineffective to prevent the application of legal estoppel. In this case, while the agreement may have contemplated future litigation, it did not address whether continuation patents could be asserted against the very same products at issue in the initial litigation. Absent such language, the court held that Transcore controlled and that the language was insufficient to permit Leviton to assert the continuations.

Based on this analysis, the Court affirmed the district court's finding of a likelihood of success on the merits of the implied license defense and upheld the injunction against legal action outside of New Mexico.

Strategy and Conclusion

This case appears to establish a new presumption in license drafting that continuation patents will be impliedly included in any license agreement at least with respect to products specifically licensed under that agreement. In addition, the court's decision appears to require an extremely clear expression of intent to exclude continuation patents in order to avoid this presumption. Based on this decision, it would be wise to always expressly state whether continuations are included or excluded in any license and make sure that the intent is clear from the language of the agreement. Based on this decision, a general disclaimer of rights will likely not be sufficient. ■

Notes:

• Patent and Technology Licensing December 2011
• LES International Societies
• www.LESI.org

les News

Licensing Executives Society International

New President Outlines Initiatives, Looks Ahead To New Year

By James E. Malackowski, President, LES International

I was first introduced to LES at a local chapter meeting in the United States in 1987. Years have passed quickly and today I am honored to write to the LES community as President of LES International for the 2011-2012 Society year. My host at the first chapter dinner, Joel E. Lutzker, is and has been a friend ever since, and today is one of my closest partners serving as my firm's General Counsel. It is not an exaggeration to say that Joel has led me to literally thousands of new LES friendships throughout the world.

I am told my year as LESI President will pass quickly through many countries, and via tens of thousands of air miles. I have been working for the last year as President Elect to prepare for this journey. Specifically, I have set forth the following three major initiatives and programs, all of which are well underway.

Initiative #1: Expand Participation by Individual LES Members in LESI Activities

I was graciously invited by LES (USA & Canada) President Tom Filarski to address his Board in San Diego to report on the activities and plans of LESI. I confided with Tom's Board that following my term as President of LES (USA & Canada) in 2001-2002, I had no appreciation for nor interest in LESI. In fact, at that point I passed on invitations to engage with the LESI Committee structure and was ready to hang up my LES hat. Two years passed before Ron Grudziecki, Willy Manfroy and a few of the other LES (USA & Canada) Past Presidents ultimately opened my view to exploring what LESI had to offer. I am deeply grateful for their persistence.

Having now been active within LESI for many years including service as a Delegate, Committee Chair and member of the Board, I can clearly state that the benefits of LESI participation compliment and meaningfully extend my experience from the local Society. We live in a globally integrated IP economy and there is simply no substitute to the insight gained by visiting with LES members from around the world. Outside of the formal LESI conferences, more than once I have found myself in a country knowing no one and armed only with my LES On-line Directory. Calls to local members are always answered and the hospitality shown provides an insider's view on both local licensing technology transfer issues as well as a glimpse at life in another country.

I encourage each of you to become more involved in LESI. For 2011-2012 I have taken steps to clarify opportunities for you to do so, including:

- Expansion of the LESI Committee leadership structure will include further well-defined Vice Chair positions. Each provides meaningful interaction with LESI in a way that will not require an undue investment of time.
- Creation of more than 30 NGO liaison positions to interface with senior policy makers around the globe as part of the LESI 2012 Global Technology Impact Forum described below.
- A true open door policy to the LESI Presidency with a creative agenda. If you are interested in getting more involved with LESI, contact me directly and we will figure out a way for you to engage.

Initiative #2: Greater Involvement by and Integration with the National Presidents

With 32 LES Member Societies, our local National Presidents, as well as the legacy of Past National Presidents, we are fortunate to have a unique resource for our Society and each of our members. From time to time the LESI Board has met with the National Presi-

President, continued on Page 2

In This Issue:

Call For Papers

Suitable papers for publication in future issues of *les Nouvelles* are being sought. Members or non-members who have presented papers at conferences or created original works are invited to submit their work. Submit in electronic form via e-mail or disk (MS Word or text-only format) to:

Larry Plonsker
E-mail: *lPlonsker@les.org*

President, continued from Page 1

dents as a group to share updates but I think it is fair to say we have not empowered the 'National President's Council' to act.

To unlock this resource, I have called a first-ever National Presidents planning retreat immediately following the International Delegates & Management Meeting held in San Diego. This two day retreat, located a short distance from the San Diego meeting hotel, will provide an opportunity to both gather best practices from other Societies as well as further build this community of interest at a personal level.

The work of the retreat will be revisited, with progress expected at the 2012 Winter Planning meeting to be held in Geneva Switzerland on Sunday January 22nd and Monday January 23rd. We have contracted with the InterContinental Hotel, but will hold the meeting a short walk down the hill at WIPO's headquarters. This will be a working meeting where we will break into small groups to finalize plans for the year as well as address means for LESI to further support the work of the Member Societies. In addition to the National Presidents, LESI Committee Leadership, the LESI Board and LESI Past Presidents will attend. The agenda will focus on issues relevant to you largely by sharing of best practices.

Initiative #3: Successful Launch of the LESI Global Technology Impact Forum and Invent for Humanity Technology Transfer Exchange Fair

Immediately following the winter planning meeting described above, the LESI Board has organized a peer-to-peer, Board-to-Board gathering of more than 25 global non-profit and non-governmental organizations (NGOs) relevant to the interests of our members. Entitled the "2012 LESI Global Technology Impact Forum (GTIF)," our mission is to coordinate and communicate the efforts of leading organizations 'advancing the business of intellectual property globally.' Of the 25 organizations already committed to attend, four have agreed to work with LESI as a strategic partner for the event–the World Intellectual Property Organization, the World Trade Organization, the International Chamber of Commerce, and the Center for Applied Innovation.

LESI GTIF 2012 will provide an overview of critical IP licensing and technology transfer issues as seen by the participants, as well as foster unique organizational networking among senior leadership of participating organizations and LES members from around the globe. LESI will facilitate post-event follow-up of objectives set during the Forum. Participating organizations are expected to use this unique organizational networking and collaboration opportunity to move forward a consensus agenda addressing major IP licensing and technology transfer concerns. Such efforts may include the commitment of joint resources from all or a subset of those attending. Although similar forums have been created for more general economic questions, the LESI GTIF represents a first for the broader technology transfer community. For more information regarding GTIF 2012, please visit: *GTIForum.org*, follow @GTIForum on Twitter, or find us on LinkedIn, YouTube, Flickr, SlideShare, or Scribd. LES members worldwide have been working on the GTIF program which is focused on IP valuation, developing IP markets and the transfer of IP and related technology from developed to developing countries. These issues impact each of us and all LES individual members are invited to register at *www.GTIforum.org*–early registration ends December 1st so make your plans today!

Concurrent with GTIF, also at the Intercontinental Hotel, all attending are also included in the Invent for Humanity Technology Transfer Exchange Fair, showcasing field-ready sustainable innovations, known as "Appropriate Technology," and leveraging the experience of licensing professionals to structure the actual transfer of such technology to meet recognized needs of emerging market economies. The mission for Invent for Humanity is to:

- Expose technology needs and solutions to the senior leadership of participating organizations at the GTIF; and
- Facilitate the practical transfer of Appropriate Technology to developing countries by utilizing Center for Applied Innovation Fellows as well as IP and licensing professionals.

LESI has the support of the Board of Certified Licensing Professionals, LLC to solicit *pro bono* support from CLPs both before and during this event.

The Invent for Humanity Technology Transfer Exchange Fair is a first-ever event bringing together a renowned collection of technology leaders already capturing the attention of IP and general news media. We welcome your support to reach out to relevant organizations in your local Society. For more about the Invent for Humanity Technology Transfer Exchange Fair, visit *InventforHumanity.org*, follow @Invent4Humanity on Twitter, or find us on Facebook, YouTube, Vimeo, Flickr, Jumo, CauseCast, or Scribd.

As LESI President, I invite your further direct participation in the plans and activities for the 2011–2012 society year. My goal is to have significantly greater interaction with you working together to further the agenda of LESI as well as support the activities of the local societies whenever possible. I am often asked "Jim, what do you want me to do?" My request is clear:

- Sign-up today to attend the LESI Global Technology Impact Forum in January (*www.GTIforum.org*).
- Review the LESI Committee Assignments posted on our Web site (*www.lesi.org*) and reach out to a Committee Chair or Vice Chair of interest to assist in one of the identified activities.

Thank you for your help.

Jmalackowski@oceantomo.com

LES Philippines

Health And Franchise Events Tap Into LES As Collaborator

Recognizing its role in advancing "Intellectual Property Licensing, Education and Networking," LES Philippines was tapped by different organizations as collaborator in back-to-back events held last August and September 2011.

5th PNHRS Week

On 12 August 2011, LES Philippines participated in the "5th Philippine National Health Research System (PNHRS) Week" held at the El Fisher Hotel in Bacolod City, Philippines. The PNHRS was established by the Department of Science and Technology (DOST) and the Department of Health (DOH) as an integrated national framework for health research in the Philippines that aims to promote the cooperation and integration of all health research efforts and stakeholders to ensure that research contributes to evidence-informed local health policies and actions.

Members at the PNHRS Week, May A. Caniba-LLona (left), Ferdinand M. Negre, Divina V. Ilas-Panganiban, Patricia A. O. Bunye

For the Intellectual Property and Technology Commercialization session, the three speakers from LES Philippines, namely Ms. Patricia A. O. Bunye, Ms. Leslie Anne T. Cruz and Mr. Oliver P. Baclay, Jr., discussed Intellectual Property Basics (Trademarks, Patents and Copyrights) and Licensing Basics. Thereafter, the attendees participated in exercises facilitated by LES Philippines–the "Healthy Heart" exercise and the Licensing Game "BABINC and TRADCO"–to apply the knowledge that they gained from the session, as well as to experience a mock commercial negotiation.

The attendees, composed primarily of researchers and inventors who have little or no experience in seeking protection over their inventions and commercializing the same, expressed that they found the session novel, informative and challenging. After the event, the organizing committee also expressed their intention to invite LES Philippines to participate once more at the next PNHRS activity to be held next year.

Franchise Asia 2011

LES Philippines participated as one of the partners of the Philippine Franchise Association (PFA) in the successful "Franchise Asia 2011" held on 23-25 September 2011 at the SMX Convention Center in Pasay City, Philippines. The international event included a franchise conference and a franchise expo. The conference featured international experts and speakers who talked about emerging strategies, best practices and other latest trends and developments in business and franchising across the globe. The expo, on the other hand, showcased the best franchise opportunities ranging from established and successful brands to new and promising franchise concepts in food, retail and service.

LES Philippines at the Franchise Asia 2011 event.

LES Philippines conducted a presentation on "Strategic Partnership Through Licensing" in one parallel session during the franchise conference. LES Philippines President, Mr. Ferdinand M. Negre, and LES International Vice-President, Ms. Patricia A.O. Bunye, were among the speakers/panelists for this event.

LES Philippines was also given a complimentary booth at the three-day expo. LES Philippines shared the mission of LES and the benefits of being a member of LES Philippines. Issues of *les Nouvelles* and the LES brochures were much appreciated by the visitors to the LES Philippines booth.

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Moving Forward: More Activities Ahead

After its successful participation in two major events, LES Philippines gears up for the last quarter of 2011 that is jam-packed with activities, as follows:

On 24-28 October 2011, LES Philippines will participate in the 1st Anti-Counterfeiting and Piracy Summit organized by the Intellectual Property Office of the Philippines.

On 9-11 November 2011, LES Philippines will also be involved in the LES Asia-Pacific Regional Conference in Singapore. LES Philippines President, Mr. Ferdinand M. Negre, will speak on the topic, "Fostering greater University-Industry collaborations in the Life Sciences" at the conference.

On 16 November 2011, LES Philippines will organize a forum with LESI President-elect, Mr. Jim Malackowski, as keynote speaker. Mr. Malackowski will be addressing the audience on the topics "IP Markets: From Auctions to Traded Exchange" and "Role of Patent Counsel in Emerging Global IP Markets."

On 24 November 2011, LES Philippines will again participate in a symposium titled, "Bringing Innovations from Laboratories to Market" hosted by the Department of Agriculture in celebration of the 7th National Biotechnology Week. LES Philippines President, Mr. Ferdinand M. Negre, will speak on "Intellectual Property Protection and Valuation" at the symposium.

On 25 November 2011, the LES Philippines will be holding a seminar on music copyright organized by its Professional Committee on Copyright Licensing.

LES Philippines has likewise been tapped by the Chamber of Herbal Industries of the Philippines, Inc. (CHIPI) for its 2nd Tradition Medicine (Trad Med) Forum with the theme "Strengthening of the Output of Clinical Trials Through Patent/Trademark Registration." The forum has been tentatively scheduled on the third week of November 2011. LES Philippines will be sending two speakers to discuss the topics "The A-Z of Patenting" and "Licensing, LESI and LESP."

Finally, on 2 December 2011, the LES Philippines will be holding its annual Christmas Party. ■

LES Scandinavia

Licensing And Partnering Explored At The 2011 Annual Conference

By Kari Sipila

LES Scandinavia conducted its 2011 Annual Licensing Conference in Oslo, Norway. The theme of the conference was Partnering and Licensing. Topics of discussion included partnering as strategic instrument, the roles of different partners as in academia, companies, entrepreneurs, inventors, suppliers, lawyers, patent engineers and attorneys, tech transfer offices, suppliers, consultants and customers domestically and internationally. All modern networks and media were discussed as tools for business, collaboration and networking.

Incubators and research parks for the success of start-ups as well as different IPR strategies were important topics. A special case gave important and new information of partnering in China, with success stories and possible problems. Licensing, however, was the key word throughout the conference, which had an attendance of more than 100 participants from all Nordic and many other countries.

The President of LESI, Mr. Alan Lewis opened the conference. He also explained experiences of partnering between developed and emerging economies.

The Annual General Meeting of LES Scandinavia was arranged during the conference. Mr. Morten Balle from Norway continues another year as President and Mrs. Kaisa Fahllund from Finland is the President-Elect.

The next Annual Conference of LES Scandinavia will be in Helsinki, Finland on September 9-11, 2012. ■

At the Annual Conference 2011 of LES Scandinavia in Oslo were also (from left) Mr. Alan Lewis, South Africa, President of LESI; Mr. Morten Balle, Norway, President of LES Scandinavia; Mrs. Kaisa Fahllund, Finland, President-Elect of LES Scandinavia; Mr. Patrick O'Reilly, USA, Past President of LESI and Dr. Kari Sipila, Finland, Past President of LES Scandinavia.

LES Austria

Anti-Counterfeiting Measures In Austria

by Alexander Cizek, DLA Piper Weiss-Tessbach Rechtsanwälte GmbH

(This article first appeared in Anti-counterfeiting 2011—A Global Guide*, a supplement to* World Trademark Review *magazine, published by* The IP Media Group*. To view the issue in full, please go to* www.worldtrademarkreview.com.*)*

Legal framework

A number of statutory instruments provide for anti-counterfeiting measures in Austria. Some of these are based on EU legislation, while others have been harmonised with EU law.

The EU Customs Regulation (1383/2003) and the corresponding implementation regulation (1891/2004) standardise border seizure proceedings within the European Union and are thus applicable in Austria. In addition, the Product Piracy Act contains provisions governing border seizure.

The various IP rights that entitle rights holders to border seizure and other anti-counterfeiting measures are laid down in several national codes which provide for proper protection of intellectual and industrial property. Further, several EU regulations apply directly in this field. The main substantive IP laws in Austria are as follows:

- the Trademark Protection Act;
- the EU Trademark Regulation (207/2009);
- the Design Protection Act;
- the EU Design Regulation (6/2002);
- the Patent Code;
- the Utility Model Act; and
- the Copyright Act.

The Unfair Competition Act is also relevant with regard to internet service providers' liability, as is the E-Commerce Act. The Rules of Jurisdiction and the Code of Civil Procedure govern proceedings in civil matters.

Moreover, the above-mentioned Austrian IP laws contain criminal law provisions with regard to the protection of intellectual property. In addition, certain provisions of the Criminal Code, in particular the Code of Criminal Procedure, apply where willful infringement has taken place.

Border measures

As stated above, the EU Customs Regulation, its implementing regulation and the Product Piracy Act govern border seizures in Austria. The core elements of these proceedings are:

- a motion for official action to be filed with the customs authorities;
- seizure of counterfeit goods; and
- opposition proceeding.

Generally, IP rights holders must file a motion with Customs in order for the latter to intervene. The motion requests Customs to inspect suspect goods to determine whether they are counterfeit and then to seize them if they are. Thus, providing Customs with additional information on identifying features and distribution channels will help it to identify counterfeits. A border seizure order is valid for one year and can be repeatedly renewed for the same term. Customs will also act on the basis of an EU border seizure order.

Once goods have been identified as counterfeits traded on a commercial scale or at least are suspected as such, Customs may seize them and temporarily suspend their release. Seizure may also be ordered by the tax authorities if the import of counterfeits amounts to a tax fraud.

In the event of a customs seizure, the rights holder and the consignee or declarant of the shipment will be notified. The rights holder may request the names and addresses of the consignor and consignee, as well as data regarding the origin and provenance of the goods. Further, the rights holder is entitled to:

- inspect the seized goods;
- take photographs; and
- receive samples.

Within 10 working days of notification (which can be extended for an additional 10 working days), the rights holder must initiate a legal action–either civil or criminal–to prevent the detained goods from being released. For perishable goods, any action must be filed within three working days.

The consignee or declarant of the shipment may object to the seizure within 10 working days of notification. Otherwise, or in the event that the consignee or declarant consents, the goods will be destroyed by, or under the supervision of, the customs authorities–provided also that the rights holder:

- confirms that the seized goods are counterfeit; and
- consents to their destruction.

The costs of destruction are borne by the rights holder, although it may later seek to recover such costs from the counterfeiter. In certain circumstances, the goods can also be made available to charitable institutions.

If an objection has been raised and court proceedings are not timely initiated, Customs must lift the seizure and release the goods. Otherwise, the seizure will be maintained until a final court decision has been rendered.

Finally, importing or exporting counterfeits may consti-

Austria, continued on Page 6

Austria, continued from Page 5

tute a tax offence, with a penalty of up to □4,000 (□15,000 in the event of wilful commission), as well as forfeiture of the counterfeits.

Criminal prosecution

The substantive IP laws, rather than the General Criminal Code, provide that willful IP infringement is a criminal offence. In the past, criminal proceedings were the best way to combat counterfeiting; this was particularly the case if there was insufficient evidence to file a civil lawsuit, as the civil procedure rules did not provide means for obtaining evidence, while the criminal procedural rules did. The Criminal Code sets out the procedural rules for pursuing counterfeiting by means of criminal prosecution. These rules were significantly amended, with effect from January 1 2008.

A general advantage of criminal proceedings is the right to a search warrant, which may yield further evidence or even reveal a larger scale of counterfeiting activities. If other counterfeit goods are found during the search, they may be seized immediately. However, criminal proceedings do not provide for (preliminary) injunctive relief–only for punishment of the counterfeiter along with forfeiture and destruction of the counterfeits. In certain circumstances, publication of the verdict may also be obtained. In straightforward cases, the judge can award damages for the injury suffered by the rights holder.

Unlike in many other jurisdictions, in Austria, the criminal offence of wilful infringement is viewed as a private prosecution; therefore, the rights holder itself is responsible for filing and pursuing criminal charges. The public prosecutor cannot pursue the case. Since January 1 2008 the previous short statute of limitations for instigating criminal proceedings on a private prosecution basis no longer exists; however, the general time limit for criminal charges–one year or five years in the case of recurring offences–still applies. The penalty prescribed by most statutory IP laws for wilful infringement ranges from a fine of up to 360 times the infringer's average daily income to up to two years' imprisonment in the case of recurring infringement.

Since January 1 2008, pre-trial investigation proceedings are no longer available to private prosecutors. This means that the rights holder must review the case and evaluate the available evidence carefully before initiating criminal proceedings; it can no longer file motions for preliminary measures against the suspect to obtain further evidence without having the suspect officially charged with a misdemeanour or a crime. Thus, the private criminal action must correspond to the requirements of the charge.

Further, the private prosecutor must explain why it is entitled to bring charges. The private prosecutor may also apply for a search and seizure warrant and other appropriate measures. Moreover, if the suspect cannot be convicted, the rights holder may seek independent criminal forfeiture and destruction of the counterfeits.

Criminal charges for IP rights infringement must be brought before the court in the place where the offence has been committed. However, the Vienna Criminal Court has exclusive jurisdiction in cases of willful infringement of patents, utility models, designs, Community trademarks or Community designs. Private prosecutions in matters relating to IP rights infringements are heard by a single judge.

The outcome of the case will determine the issue of legal costs. If the prosecuted party is convicted, it must also reimburse the private prosecutor's legal costs. If the criminal charges against the suspect are dismissed or the criminal proceedings do not result in a conviction, the party that brought the private prosecution will be ordered to pay the legal costs.

As regards legal remedies, both the defendant and the plaintiff may appeal the verdict before the regional court of appeals.

Civil enforcement

An aggrieved rights holder can also choose from an array of claims to bring in a civil court. These include:

- injunctive relief;
- removal of the infringing goods and the tools necessary for their production;
- adequate compensation, irrespective of negligence; and
- publication of the injunction element of the judgment.

Further, in cases of negligence, the rights holder can claim either damages (including lost profits) or the delivery up of the assets realised by means of the infringement instead of adequate compensation. In the event of willful infringement or gross negligence, the rights holder may claim double remuneration (*i.e.*, twice the sum of adequate compensation), irrespective of proof of the damage suffered. In certain circumstances, the rights holder may also claim compensation for any immaterial damage inflicted.

In addition, the rights holder is entitled to:

- a rendering of accounts so as to be able to quantify the damage claimed; and
- receive detailed information on the origin, size or volume, prices and distribution channels of the counterfeit goods, including the personal data of anyone who possessed or traded the counterfeits on a commercial scale.

Payment claims such as claims for compensation are subject to a limitation period of three years on notice of the infringement. The same applies for injunction claims. For certain criminal misdemeanours, such as acts of willful infringement, a longer limitation period of 30 years may apply.

Civil lawsuits for IP rights infringements are brought in the commercial courts or commercial divisions of the regional courts which have jurisdiction over IP rights infringement cases. Disputes involving patents, utility models, designs, Community trademarks or Community designs are heard exclusively by the Vienna Commercial Court.

In addition to claims laid down in the respective substantive IP laws, the Unfair Competition Act provides for similar claims

against engaging in unfair, aggressive or misleading commercial conduct or practices, such as misrepresentation of ownership of IP rights or slavish imitation of products. The commercial courts or commercial divisions of the regional courts also have jurisdiction over these disputes. However, in contrast to trademark claims, the statute of limitations with respect to injunction claims in unfair competition cases lapses after only six months.

The court's judgment is subject to appeal to the respective court of appeals; there is a restricted right of second appeal to the Supreme Court, for which prior leave must be granted by an appeal court or the Supreme Court.

Most substantive IP laws provide for preliminary measures and so does the Enforcement Act. Since the implementation of the EU IP Rights Enforcement Directive (2004/48/EC) in 2006, rights holders can benefit from preliminary measures for other claims (*e.g.*, removal, adequate remuneration, damages and delivery up of the assets), in addition to preliminary injunctive relief. The preliminary measures are designed to secure both the claim and evidence until a final decision is handed down in full-scale proceedings. Such preliminary orders are subject to appeal and the additional remedy of an objection if the defendant was denied the chance to comment on the motion. Usually, the legal remedies in preliminary proceedings do not suspend the enforcement of the preliminary injunction, but exceptions may be granted on a separate motion.

Anti-counterfeiting online

The E-commerce Act provides for 'freedom of access,' meaning that no additional authorisation is required for a supplier to offer products online. In other words, the supplier need only observe the same requirements as when products are offered offline. However, the supplier's Web site must contain detailed information about its name, address and email, as well as the prices of its products and shipment costs.

As a matter of statutory law, Austrian IP laws stipulate that an offer of counterfeit goods (including bids via electronic media) constitutes an act of infringement. Moreover, the Unfair Competition Act categorises the online advertisement of pirated goods as an unfair trade practice in terms of an IP rights infringement.

As a matter of case law, the Supreme Court has deemed that the launch of a Web site advertising and offering for sale counterfeits infringes IP rights. This view applies even if the domain name is registered abroad, because a link with Austria is evident from the fact that the site can be accessed via the Internet in Austria. However, the court also ruled that appropriate disclaimers on a web site may exclude the possibility of bringing an action before the Austrian courts.

The relevant host provider may be made liable for IP rights infringement unless:

- it was unaware of the content and the infringing conduct on the Web site; or
- it blocked the Web site immediately after being notified that the goods on offer were counterfeit.

Pursuant to the E-commerce Act, there is no general obligation for providers to monitor the content they provide. For cease and desist claims, it is a prerequisite that the provider was made aware of the infringement by the third party. This is generally not the case, according to Supreme Court case law, unless the provider has been notified by the rights holder (*e.g.*, through a warning or cease and desist letter). After having received such notification, the provider will be basically liable for the infringement, provided that it is obvious to a layperson. However, the provider may avoid liability if it blocks immediately access to the infringing content after receiving the notification or warning letter. Further, according to case law, the provider is not obliged to disclose information about the holder of a dynamic internet protocol address, as such data cannot be legally retained until the EU Data Retention Directive is implemented in Austria.

Preventive measures/strategies

The most widely used preventive measure in Austria is the border seizure order. Precise up-to-date information regarding the originals, detailed identification features and information on distribution channels enables Customs to identify counterfeits and facilitate seizures.

It is important to work closely with public authorities. Public agencies such as Customs can act not only in border seizure scenarios, but also in interstate commerce, in particular when tipped off about a consignment of counterfeits being shipped through Austria. Close cooperation with the police can also facilitate seizures based on official search warrants. Membership of or cooperation with national or international anti-counterfeiting agencies helps to further the exchange of valuable information and assist in the fight against internationally organised gangs of counterfeiters.

Further preventive measures lie with the respective rights holder and often depend on the availability of sufficient funds. In particular, IP rights holders often run market studies and activities to enhance brand awareness. Large companies are increasingly choosing to monitor their supply chains, controlling their relationships with contractors and reshaping contracts and licence agreements accordingly. The use of electronic devices is also being considered by numerous businesses, but many do not pursue this course of action due to budgetary constraints. However, technology is increasingly being used, particularly by larger organisations, to authenticate goods and monitor procedures.

Private investigators may also be considered and often prove useful in locating known but evasive counterfeiters, or in discovering and recording counterfeiting or infringing conduct. Test purchases and copies of web site print-outs may also be arranged by private investigators or a local attorney. The services of local legal counsel with special expertise in anti-counterfeiting should be retained, at least from the point at which the rights holder obtains (sufficient) proof of counterfeiting activity in Austria. ■

LESI Creates Global Technology Impact Forum (GTIF) To Tackle Two Of Licensing Executives' Most "Wicked Problems"

January 24-25, 2012, Geneva, Switzerland

By Paul Germeraad, President, Intellectual Assets, Inc., LESI Vice President

Introduction

There are two great problems worthy of the best minds in the Licensing profession. The first is how to negotiate a licensing agreement in a few days, in a way that creates win-win outcomes for all parties, so that technology transfer is enabled worldwide. The second is providing technology to developing countries in a way that maintains sales and profits in developed countries, so that needed products and services benefit all parties worldwide.

The need is great and at first glance solutions may seem simple. However on careful analysis of the issues it is quickly determined that the solutions are not at all easy, and as such, the problem is a "Wicked Problem," as characterized in innovation / knowledge creation communities.

Technology Transfer to the Developing World

The developed world has proven its ability to license almost any technology, product or service. However, developing countries are faced with dynamic political and operational challenges that often provide barriers for adequate technology transfer. Challenges include insufficient knowledge of licensing options by business leaders, excessive time and cost required to construct win-win licensing agreements, inability to track products within licensed territories, and adequate remedies for licensing agreement breach.

The cost to repair or recover from a win-lose licensing agreement, or from an agreement whose terms are violated can be enormous. Leakage of generic drugs, for example, from a licensed company in a developing country back into a developed country can be tens of millions of US dollars. On the other side, the lack of technology transfer to developing countries produces equally devastating human losses. Clearly, the lack of a win-win solution to this problem involves the economy as well as the safety of populations.

Technology solutions exist in developed countries for many of the world's complex problems. The issue now is finding a way to bring those solutions to developing countries. It is not that people have not tried. Innovative business leaders and licensing executives have worked over the years to overcome the seemingly overwhelming constraints of each developing country. However, the task is formidable since the obstacles to produce good license agreements are numerous and change constantly. A comprehensive solution must address these obstacles. It is proposed that the methods used to solve "Wicked Problems" be applied to this worldwide opportunity.

Characteristics of Wicked Problems

Defining any problem is the first step in taking corrective action. For transferring technology to developing countries, the best framework may be to consider the issue as a "Wicked Problem" (Rittel and Webber 1973). Adapting from their work, the elements of such a problem are:

1. Wicked problems have no stopping rule.
2. Solutions to wicked problems are not true-or-false, but better-or-worse.
3. Every solution to a wicked problem is a "one-shot operation"; because there is little or no opportunity to learn by trial-and-error, every attempt counts significantly.
4. Every wicked problem is essentially unique.
5. Every wicked problem can be considered to be a symptom of another problem.
6. The licensing negotiators have no right to be wrong (licensing negotiators are liable for the consequences of the actions they generate).

Tackling a wicked problem is not easy. Clearly the first step is that "licensing executives" need to admit ignorance to all the factors of the problems they face in technology transfer to developing countries. "Only with an open mind can they then observe all of the elements needed to be brought to the planning table. From there, participants can discover what no one knows, and go forward from there" (adapted from Weil 2010).

Solution Methods for Wicked Problems

Rittel and Webber provided some guidance in solving Wicked Problems. Their comments were: "Our point, rather, is that diverse values are held by different groups of individuals–that what satisfies one may be abhorrent to another, that what comprises problem solution for one is problem-generation for another. Under such circumstances, and in the absence of an overriding social theory or an overriding social

ethic, there is no gainsaying which group is right and which should have its ends served. One traditional approach to the reconciliation of social values and individual choice is to entrust decision-making to the wise and knowledgeable professional experts and politicians. But whether one finds that ethically tolerable or not, we hope we have made it clear that even such a tactic only begs the question, there are no value-free, true-false answers to any of the wicked problems governments must deal with. To substitute expert professional judgment for those of contending political groups may make the rationales and the repercussions more explicit, but it would not necessarily make the outcomes better. The one-best answer is possible with tame problems, but not with wicked ones.

Another traditional approach to the reconciliation of social values and individual choice is to bias in favor of the latter. Accordingly, one would promote widened differentiation of goods, services, environments, and opportunities, such that individuals might more closely satisfy their individual preferences. Where large-system problems are generated, individuals would seek to ameliorate the effects that they judge most deleterious. Where latent opportunities become visible, individuals would seek to exploit them. Where positive non-zero-sum developmental strategies can be designed, individuals would of course work hard to install them.

Whichever the tactic, though, it should be clear that the expert is also the "licensing executive player" in a political game, seeking to promote his private vision of goodness over others'. Planning is a component of politics. There is no escaping that truism."

Another approach to solving such problems is to expand or combine Wicked Problems so that the solution set is also expanded. Here trade-offs become opportunities versus adding complexity.

LESI Focus On Wicked Problem #1:

Negotiating Licensing Agreements In A Few Days In A Way That Creates Win-Win Outcomes For All Parties So That Open Innovation Is Enabled Worldwide

Why this is a wicked problem

Licensing agreements have historically been done in months not days. Surveys by the licensing executive society USA and Canada have shown the average time for a license was around nine months with times as short as a few months and as long as 30 months. Working to bring licensing activities down to negotiations lasting only a few days is indeed a formidable challenge.

Looking now at the elements associated with a wicked problem, there is no definitive way to formulate such an issue. What creates a win-win outcome varies according to the parties involved. An example is the technology transfer of generic drugs to developing countries which appears to be a win for society in some cases is seen as those in the pharmaceutical business as lost profits and the opportunity to continue doing further research and development. Thus a solution for problems like this is not whether you create a "win-win" situation but "has one created a better solution than not doing the technology transfer at all."

Why this is a problem worth solving

Clearly a solution to this particular problem by licensing executives would have a great value to the world. All industries would benefit from the opportunity to take technology out of universities, small companies and non-competitors and bring new products and services to market, based on this technology transfer. This clearly brings great benefit to societies in the world as well as economic value to the companies involved.

It is not that people do not try to solve this problem. For several decades now the topic has been actively discussed within the Licensing Executives Society. Although new data analysis tools and techniques as well as negotiating styles and protocols have been developed, the time required to negotiate a license still runs on the order of months.

LESI Focus On Wicked Problem #2:

Providing Technology to Developing Countries While Maintaining Sales and Profits In Developed Countries So That Needed Products and Services Benefit All Parties Worldwide

Why this is a wicked problem

Whether it be a technology to produce clean water or combat infectious diseases, the need for such technologies worldwide is great. Both developing and developed countries dearly need access to such technology. Since these are tough scientific and engineering problems to solve it is often the case that the research and development expenses associated with a solution are large. The problem becomes wicked because one potential solution to the problem is to create a tiered structure where the license rates in developed countries would be higher than those in developing countries. The issue however becomes one of assuring that the license terms are upheld. Products and services produced in developing countries have been known to migrate to those in developed areas of the world. Although licensing terms prohibit such transfer it nonetheless occurs. Because the economic cost and penalty to the entities involved in the transfer of technology are so large, this potential for technology and product leakage from one region of the world to another is a great enough concern to stop outright the transfer of technology. This becomes a wicked problem because the values people place on intellectual property are not uniform around the world. This difference of view at the individual and at the government level produces policies that may be inconsistent with the terms of a negotiated license agreement.

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LESI, continued from Page 9

Why this is a problem worth solving

Solving this problem would bring additional revenues to corporations all around the world. They would have an opportunity to obtain the incremental revenues and profits on sales of technology that they had already invested research and development dollars in. On the other side of the coin, developing countries would obtain needed technology and solution to some of their societies most pressing health and safety issues. It also allows developing countries an opportunity to bootstrap cottage industries through deployment of cell phone and Internet technologies.

Role of GTIF in Tackling These Two Wicked Problems

Solutions to Wicked Problems are complex. For the Wicked Problems at hand, individuals and societies like the Licensing Executive Society International have tried the approach of breaking the problem into component parts to try to come up with a solution. As of this date those approaches have been met with limited success. Recall that another method to solve such Wicked Problems is to expand the scope of a problem rather than to parse it into small bits and solve its components. Although at first this may seem counterintuitive, it is a simpler approach that has met with some success in the past.

It is because of the lack of successful solutions so far that the Global Technology Impact Forum has been created. It is clearly an experiment in a new way to solve two wicked problems at once. Although it is a higher risk approach, clearly the knowledge, wisdom and agreements that result will have potential benefit to companies and individuals worldwide. The time and energy required to provide and support enthusiastically such a conference is overweighed by the potential good that will result.

The LESI Global Technology Impact Forum (GTIF) is an annual event, hosted by the Licensing Executives Society International, Inc. (LESI), developed to coordinate and publicize the efforts of premier global non-profit and non-governmental organizations dedicated to the promotion of IP licensing and technology transfer for the betterment of mankind.

Invited organizations are representative of three interest groups: IP Protection & Harmonization; Trade & Economic Development; and Technology Transfer & Standards.

LESI GTIF Program Focused on Wicked Problem #1

The mission of the LESI Global Technology Impact Forum is to coordinate and communicate the efforts of leading organizations seeking to further IP licensing and transfer of technology to spur economic growth and societal benefit.

It also provides an overview of critical IP licensing and technology transfer Issues of the day as seen by the participants.

The LESI GTIF agenda will focus on three elements critical to finding solution options for the first Wicked Problem:

(1) Global IP Valuation & Accounting Standards

(2) Development of a Global Economic Marketplace for IP

(3) Transfer of IP and Technology to Developing Nations to Foster Economic Development & Sustainability

LESI GTIF Program Focused on Wicked Problem #2

The mission of the Invent for Humanity Technology Transfer Exchange Fair, jointly created by LESI and the Center for Applied Innovation, is to transfer life-changing Appropriate Technology to benefit the developing world. This part of the GTIF will focus on two activities:

(1) Expose technology needs and solutions to senior leadership of non-governmental organizations attending GTIF (including groups such as the Licensing Executives Society International, the World Intellectual Property Organization, the World Trade Organization, the International Chamber of Commerce, and others) who can help with policy development consistent with shared objectives.

(2) At the conference, facilitate real-time practical transfer of Appropriate Technology to developing countries utilizing experienced IP valuation experts and licensing professionals. This offers a hands-on learning and deployment environment for the insight individuals obtain from the GTIF speakers and one another.

Invent for Humanity will focus on "Appropriate Technology," technology that is designed with special consideration to the environmental, ethical, cultural, social, political, and economical aspects of the community it is intended for. Such Appropriate Technology is generally implemented without specialized training, repairable with locally-available resources, extendable within local constraints, requires no or commonly-used power sources, limits consumable donations (such as vaccines) to single dose applications, and contains little to no salvage value. For the GTIF, nine key areas have been selected: Shelter, Health, Water & Sanitation, Education, Energy & Environment, IT, Mobility, Agriculture, and Enterprise.

Conclusion

In summary, the GTIF is a LESI experiment in providing a forum to create and use new methods that will solve some of the great problems of licensing and society at large. It will take hard work and proactive participation by all of our Society members to ensure success. Uncovering new opportunities for all involved is the payback. ■

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LES Malaysia

LES 100 Course On "Commercializing Technology Through The Power Of Licensing"

The Licensing Executives Society Malaysia ("LESM") hosted an introductory licensing course, "LES 100" with the theme "Commercializing Technology Through the Power of Licensing" with Hayley French (LES Britain & Ireland), commercial director and general counsel of an European biotechnology company, and John Walker (LES Australia), Managing Director of a specialised technology and IP management practice, as the course instructors, at Empire Hotel, Subang Jaya, Petaling Jaya. The one-day course, comprised 5 modules:

Module 1: Introduction & IP Basics: Introduction to the different types of IP including patents, trademarks, copyright, trade dress, and trade secrets.

Module 2: Basics of IP Commercialization & Licensing: Introduction to Licensing, including reasons for licensing, description of licensing agreements, infringement, competition law, and relationship-building.

Module 3: Determining Reasonable License Fees & Royalty Rates: Risks and rewards, different Valuation methods (Market, Financial, Cost) and their pros and cons, and royalty structures.

Module 4: Managing Risks: Different kinds of risk and how to manage them, *i.e.*, confidentiality, infringement, liability, collection of royalties and other fees, and unlicensed competition.

Module 5: Licensing Game: Practical exercise where licensee and licensor teams discuss and negotiate terms based on a licensing case study.

The course attracted approximately 30 attendees consisting of lawyers and representatives of industries and businesses and aimed to provide a forum for imparting practical information and discussion on the intricacies of IP and IP licensing. Hayley and John presented teachings and discussions on IP and licensing covering in the first four modules peppered with anecdotes on their experience. After the instructors' respective presentations, an open forum was held, during which the attendees were invited to and did put forward various questions that the instructors ably fielded.

This provided the foundation for the fifth module, the "licensing game," which is an interactive session allowing the attendees to role-play and put theory into practice in a licensing case study. The attendees were divided into five teams of licensor and licensee and participated in a scenario where they could apply the teachings from the first four modules in the course. Participants entered into lively discussions and negotiations on the terms of a licensing agreement.

All in all, the LES100 Course was a success, and the practical module was particularly well-received amongst the attendees, judging by their enthusiastic participation and positive feedback.

The LES 100 is the first seminar for 2011/2012 and LES Malaysia hopes to organise more courses from the Licensing Executives Society's Intellectual Asset Management Series in the near future. ■

Instructors Hayley French (left) and John Walker help students discuss topics at the LES100 course hosted by LES Malaysia.

LES Spain

New Legal Framework For Ownership And Transfer Of Inventions Developed By Public Institutions

by Manuel Lobato- Amparo Campos

The Spanish Parliament has introduced a Legislative Act (Ley 2/2011 de Economía Sostenible) which amends several bodies of law with the aim of aiding Spain's economic sustainability. The Act came into force on 6 March 2011 and contains significant modifications to the Spanish legal framework concerning R&D projects undertaken by public research institutions. This article summarizes the legal implications of this new regulation, namely the impact on ownership and transfer of intellectual property rights involved in R&D projects.

The Act applies to the results of all R&D projects (including intellectual property rights) undertaken by an employee of a public research entity within the scope of his or her employment, whatever the exact nature of the relationship. It stipulates that, in the case of work made for hire, the public research entities for whom the work is prepared are considered to be the owners of any intellectual property rights that exist in the work.

Furthermore, the exploitation of these intellectual property rights is reserved to the public research entities. The legislation determines that licenses concerning transfer of ownership or exploitation of intellectual property rights to third parties are (i) subject to prior authorization from the Ministry (such authorization to command the entity which owns the intellectual property right to assert that the rights at issue are not necessary for the defence of the public interest), and (ii) are bound by the Spanish national law as well as the Articles of Incorporation of the concerned entity. Nevertheless, the Act enumerates eight scenarios in which prior authorization is not required. These include when a transfer is done in favour of another public Administration or a non-profit entity, and when the intellectual property right is jointly owned and the sale is made in favour of joint owners. In cases other than those laid out in the Act, the transfer of intellectual property rights to a third party will be subject to prior public diffusion and adherence to public procurement contract procedure.

Likewise, from now on, when transferring ownership of intellectual property rights to a private entity, the license agreement must include clauses enabling public entities to recover some of the added value obtained: (i) in the case of successive transmissions of the intellectual property rights, or (ii) where by the time of valuation, due to disregard of certain circumstances, the right was transferred at a lower value than it would have been if the disregarded circumstances had been taken into account.

On the other hand, the new regulation favours the cooperation of public agents with the private sector through participation in technology-based companies. Subject to authorization, the Act enables public research entities such as public universities or state trading companies to participate in the capital stock of certain corporations. In order for this to be allowed, the corporation in question must be dedicated to research, development and innovation, concept testing, the transfer and exploitation of intellectual property rights, the utilization of innovations and scientific knowledge obtained and developed by public agents, or the provision of technical services relating to their own purposes.

In order to contribute to the generation, dissemination and transfer of innovation, the Spanish Parliament has introduced another Legislative Act (Ley 14/2011 de la Ciencia, la Tecnología y la Innovación). This Act, which will enter into force next 6 December 2011, sets forth general principles for the promotion of research and experimental development. It complements the above regulation. For instance, it stipulates that an employee of a public research entity shall participate in the benefits of the exploitation of I&D results (including intellectual property rights) to which he or she has contributed. Notwithstanding, the aim of this new Act is to settle a general framework to enhance innovation rather than providing specific rules concerning the ownership and transfer of intellectual property rights involved in R&D projects developed by public institutions. ■

INTELLECTUAL PROPERTY

A TOOL FOR ECONOMIC GROWTH IN THE THIRD MILLENNIUM

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- Gala Dinner on Monday, June 11th at the Tor Crescenza Castle
- Social Event on Tuesday, June 12th at the Vatican Museums and Sistine Chapel

LES Pan European Conference 2012

Intellectual Property: A Tool For Economic Growth In The Third Millennium

Rome (Italy) June 10-12, 2012

LES Italy is honored to host the LES Pan European Conference 2012 and delighted to invite the LES members and other professionals who deal with Intellectual Property, as well as those from other industries who have an interest in learning more about maximizing the value of IP Rights, to come to Rome next June.

The LES Pan European Conference 2012–Intellectual Property: A tool for economic growth in the third Millennium –will be a great event that attracts IP practitioners and industry professionals from all over the world by giving them an ideal forum to meet, network, exchange points of view and experiences, and promote the understanding of IP protection.

Keynote speeches and afternoon workshops will be specifically tailored to address the IP needs of large corporations as well as small and medium-sized enterprises. The conference will bring together leaders from the world of business and finance to discuss the importance of IP Rights as a driver for economic growth and development.

We would appreciate receiving workshop proposals and suggestions on any international captains of industry for consideration as keynote plenary speakers.

We have already chosen some macro areas for the workshops:

- Innovation and licensing as effective tools to compete in tough economic times;
- The latest case-decisions affecting IP licensing in European law;
- IP Monetization: new business model;
- IP Valuation and Due Diligence: trend, tools and techniques;
- Emerging trends in valorizing patent portfolios through enforcement;
- The Unitary Patent and the Single European Court of Justice;
- How and to which extent to protect innovation in new industries (from Green to Nanotech);
- Conflicts in obtaining the protection of product's shape through copyright, design and trademark;
- Online counterfeiting and domain name protection;
- Equivalence in various jurisdictions: to be or not to be;
- Academic institution and technology transfer.

The program also includes various social happenings situated in historically and culturally interesting settings. The Conference will officially open on Sunday, June 10th with a Cocktail Reception held in the Parco dei Principi Grand Hotel & Spa, an urban oasis overlooking the Villa Borghese park in one of Rome's most elegant districts. For Monday, June 11th we have arranged the Gala Dinner at the Tor Crescenza Castle, a beautiful castle from the 15th century a few kilometers outside Rome. For the last day of the Conference we have arranged a very Special Event. We have organized an evening visit to the Vatican Museums and Sistine Chapel where you can enjoy amongst other sights, Raphael's room and Michelangelo's "Last Judgment." The dinner will take place inside the Museum.

The Organizing Committee is working enthusiastically and diligently to make this event a memorable experience. Make sure you don't miss out!

For any enquiries relating to the conference visit the Web site: *info@les-italy.org.* ■

LESI Launches New Web site, www.lesi.org

The Licensing Executives Society International has recently launched its updated Web site (*www.LESI.org*). The Communications Committee as well as the LESI staff has contributed greatly to the appearance and content of the new site.

Highlights of the new site include:

- Updated Design and Presentation.
- Member Online Self Service.
- More Robust Member Directory.

Web site, continued on Page 20

Movie Review | ***By Richard Nicholas Brown***

Tanpopo

Directed by Juzo Itami 1987

Readers of *les Nouvelles* should try to locate Juzo Itami's film entitled *Tanpopo*. This Japanese comedy manages to explain many elements involved in Japan's commercial success and is one of the movies that celebrate food, much like *Chocolate* and *Eat Drink Man Woman*.

Tanpopo is a comedy that gives a satirical Japanese view of targeting niche markets, marketing, copying, competition, industrial espionage, research and development, acquisition of trade secrets and developing names. In addition, it shows foodies, gangsters, Japanese street people con men, lady fruit pinchers, Japanese company men, Japanese supermoms, courses to prepare Japanese tourists to deal with the West, bullet-riddled gangsters and Japanese eroticism.

The Story is Simple

The hero, Goro, wears a cowboy hat and kerchief but drives a tank truck in modern day Tokyo. Goro and his sidekick, Gun, find a gangster and four thugs propositioning the middle-aged proprietress of a noodle shop who is the heroine named Tanpopo. After the obligatory fight (which our hero loses), the proprietress binds Goro's wounds and asks how Goro and Gun rate her noodles. She is told they are not good. Tanpopo asks Goro to help her learn to make better noodles, which she declares to be her niche market.

Goro's Advice is:

Study your customers, visit every competitor and carefully watch successful competitors so you can copy their techniques.

Tanpopo asks one successful noodle maker for his recipe, but he offers it for a million yen. A Chinese customer in that restaurant overhears the response and takes Tanpopo aside and says he owns the adjoining shop and offers to let Tanpopo spy on the successful chef for only 30,000 yen. Tanpopo accepts the offer. Note that Tanpopo engages in her industrial espionage without any guilt and that the idea of using espionage comes from a Chinese in this Japanese film.

Tanpopo then goes to another restaurant and tricks the chef into revealing his trade secrets with the following exchange:

Tanpopo: *"The noodles are not as good as last time. You must have changed the water."*

Chef: *"No I still use sparkling spring water."*

Tanpopo: *"Then you must not have let the dough set long enough."*

Chef: *No, I kneaded it the usual three separate times."*

Armed with the trade secrets, Tanpopo leaves to continue her own research and development work during which time she closes her business to be able to concentrate on her research.

A noodle expert is then called in. He breaks down the noodle recipe into its basic components: soup, noodles and flavorings. The expert explains how every element of each component must be perfect and that the marriage of the elements and their arrangement and placement must be also perfect.

One observation is that when Tanpopo tries to get information from a competing restaurant with several chefs, they challenge her for trying to steal their trade secrets. It seems that in Japan you should be on your guard against someone stealing your trade secrets and the advice also applies outside of Japan. Note also that the heroine obtains a great deal of help from many sources and her final triumph is a group triumph, not a triumph of individual efforts.

At the end, Tanpopo prepares the perfect noodle and she decides to rename the restaurant. The Japanese formula for naming a new venture is elegantly simple. "It must be different and easy to say, so the name picked for the restaurant is TANPOPO." ■

 The author is a partner of De Sola Pate & Brown, Caracas, Venezuela. This review first appeared in *Managing Intellectual Property,* March 1992, page 36.

Web site, continued from Page 15

- Effective Site Search
- Searchable *les Nouvelles* Archive
- Seamless Integration
- Improved Data Integrity

A powerful search tool has also been added to facilitate the searching and sorting of site content, including archived issues of *les Nouvelles*. In addition to being able to search for keywords on individual pages of the journal, Professor Paul Taylor of Bordon Ladner Gervais LLP, Ottawa, Canada and their summer students Adriana Ward, Stephanie Swift, Benjamin Reingold and Fiona Li, have made a tremendous contribution to the online archive by creating subject matter indexes for articles from back issues of *les Nouvelles*.

Core systems running the Web site provide flexibility for the addition of new features and services in the future, as well as content scalability. LESI is committed to the continued enhancement of the Web site in response to member needs and feedback.

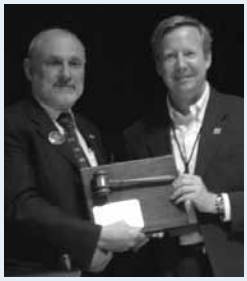
If you haven't already done so, please visit our updated Web site (*www.LESI.org*) and see the types of licensing and intellectual content and programs available to LES/LESI members. Don't forget to login to the Web site and update your member profile! ■

New Members

Meet The New Board!

At the October, 2011 International Management and Delegates Meeting following the LES (USA & Canada) Annual Meeting, the new LESI Board was sworn in for the 2011-2012 year and is composed of:

- *President:* Jim Malackowski
- *President Elect:* Kevin Nachtrab
- *Past President:* Alan Lewis
- *Vice Presidents:* Arnaud Michel, Paul Germeraad, Patricia Bunye, Hector Chagoya Cortes
- *Secretary:* John Walker
- *Treasurer:* James Sobieraj
- *Counsel:* Jean-Christophe Troussel, François Painchaud



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(Continued from LES Viewpoints)

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Wheeler, Glenn
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Wheeler, Mary
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Wilhite, David
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LESI 2012 To Provide Latest Insights Into 'New Frontier' Commercialisation

Auckland, New Zealand • April 1-4, 2012

With just under five months to go until the LESI 2012 Annual Conference and International Delegates' Meeting, host LES (Australia & New Zealand) is pleased to announce further updates to the Conference programme.

Francis Gurry, Director General of the World Intellectual Property Organisation, has recently been confirmed as the opening speaker on day 2 of the Conference, Tuesday 3rd April.

Sir Ray Avery, founder of Medicine Mondiale, Ben McNeil, economist and author of 'The Clean Industrial Revolution,' Mark Stevenson, author of 'An Optimists Tour of the Future' and Nick Gerritsen, entrepreneur and leader of New Zealand's contribution to the global clean tech revolution, will be attending the Conference as keynote presenters and promise to deliver some challenging new insights into the commercialisation of innovation within their fields of health and medical devices, climate change science, new scientific frontiers and clean tech.

The Conference programme contains workshops broadly categorised by themes such as Resources and Environment, Clean Technology, Sustainable Economic Development, University-Industry-Government Collaboration, and Health and Life Sciences. There is also a stream focussed on technical subjects, such as patent law reforms, licence drafting tips, IP issues in M&A deals and such like. The following speakers and topics give just a taste of the exciting offerings that delegates will be invited to attend:

- Creating Something from Nothing: Case study on the success of Lanzatech–a global leader in gas fermentation–Sean Simpson, Lanzatech
- Cleantech Innovation in China–Ray Tettman, Watermark
- Sustainable Manufacturing: The impact of industrial chemicals and plastics from renewable feedstocks–Dianne Glenn, Corelli Consulting, Ann Roberts, Plantic Technologies (polymer research and biodegradable plastics)
- What You Need to Know about Licensing, Intellectual Property and Intellectual Assets to Successfully roll out Your Social Enterprise–Christi Mitchell, Highbury
- Best Practices in Innovation Management: Deep Industry–Janne Virtapohja, King Abdullah University of Science and Technology
- Top Ten Mistakes Commonly Made When Negotiating and/or Drafting a Patent License Agreement–Russell Levine, Kirkland and Ellis LLP

The LESI 2012 Conference offers an exciting social programme, included within the registration fee. The Welcome Reception on Sunday 1 April will be held at the Aotea Centre, an iconic landmark in the centre of the city. A traditional Maori Powhiri and accompanying ceremony will mark the official opening of the Conference before Mark Stevenson takes to the stage. This will be followed by a drinks and canapés reception.

Auckland's magnificent Town Hall will be the setting for the Conference Dinner the following evening. Against a backdrop of the largest Pipe Organ in the Southern Hemisphere, delicious New Zealand cuisine will be matched to fantastic New Zealand wines.

The social programme will culminate with the Gala Dinner on Tuesday 3 April. This will truly be a night to remember. Orams Marine, with its awe-inspiring stacks of marine craft towering above the dining area, provides a stunning and memorable location to bid farewell to the City of Sails. The food and wine will be superb, and the entertainment among the best that New Zealand has to offer.

The Conference Web site provides the opportunity to book tours either side of the Conference to maximise your experience of New Zealand. We encourage you to sample the delights of our beautiful country.

Register now for this highly anticipated international conference. Earlybird registration is open until December 16th. Visit *www.lesi2012.org* to register and to access further programme details.

We look forward to welcoming you to Auckland in April 2012. ■

In 2012, we'll be saving the world – will you join us?

By then, the world's population will hit 7 billion, the Kyoto Protocol will expire and the global licensing world will descend on Auckland New Zealand to explore how innovation might be commercialised to "save the world" from threats such as disease, poverty, food shortages, over-population, terrorism and environmental destruction.

The LESI International Delegates Meeting and Annual Conference 2012 (LESI2012) will be held in Auckland, New Zealand, Sunday 1 – Wednesday 4 April 2012.

The welcome will be warm, and the atmosphere most congenial. In our quest to save the world, there can be nothing better than to share what we know and bring our different thoughts together – the sum of the whole is, after all greater than its parts.

Imagine viewing the city at sunset from the very top pylon of a bridge, sharing a sunrise with a whale, swimming with dolphins, jumping off the edge of highest tower in the city, jet boating through a scenic river valley and hiking through a rainforest-rimmed glacier.

The thrills of New Zealand's adventure experiences await you and LESI2012 will be the very best opportunity to spring board your New Zealand vacation in a country that offers something to delight everyone.

Proposals for workshops and add-ons for the Conference are being received up till and including 1 April 2011 highlighting case studies on health innovations, improving agriculture and horticulture, micro-loans and micro-financing, water treatment innovations, and technological counter-terrorism measures.

The LESI International Delegates Meeting and Annual Conference 2012 will be held in Auckland, New Zealand Sunday 1 – Wednesday 4 April 2012.

For more information about session criteria and how to submit proposals please email Simon Rowell: simonr@jaws.co.nz by 1 April 2011.

For more information about the conference please refer to our website: www.lesi2012.org

LESI2012
Auckland, New Zealand
Commercialising Innovation to Save the World
Hosted by LESANZ

LES
LICENSING EXECUTIVES SOCIETY
INTERNATIONAL

Preliminary Call for 2012 Entries

Licensing Executives Society FOUNDATION

Licensing Executives Society (U.S.A. and Canada), Inc.

Licensing Executives Society International

Graduate Student Business Plan Competition

May 15, 2012 • Boston, MA

Finalists receive cash prizes and expenses towards the LES (USA & Canada) Spring Meeting, world-class mentorship and networking opportunities!

The LES Foundation in cooperation with The Licensing Executives Society (U.S.A and Canada), Inc., and The Licensing Executives Society International (LESI), invite MS/MBA/MD/JD/PhD students and postdoctoral scholars from around the world to participate in the 2012 LES Foundation Graduate Student Business Plan Competition!

Qualifications:

To participate entrants must submit a comprehensive business plan with a core intellectual property (IP) licensing component. Entries are evaluated by seasoned industry professionals who provide valuable feedback to each team. Entries are judged on a variety of factors including attractiveness of the venture, intellectual property strategy, quality of the product/service offered, market opportunity and investment potential. For more details on Competition guidelines visit **www.lesfoundation.org.**

Boston Finals:

Finalist teams receive expenses paid trips to compete in Boston and attend the 2012 LES (USA & Canada) Spring Meeting. This includes transportation, hotel and meeting registration costs for student members and a faculty advisor (up to 2 individuals per team). In Boston, teams will present their plans and enjoy an unique opportunity to network with licensing professionals representing all aspects of the industry. The winning team will be announced during the meeting and will receive valuable cash and in-kind prizes.

Key Dates:

- **November 16, 2011** Team registration opens
- **January 31, 2012** Deadline for team registration
- **February 29, 2012** All business plans due
- **May 14 & 15, 2012** Final round of competition and the IP & Licensing Basics course
- **May 16–17, 2012** LES (USA & Canada) Spring Meeting in Boston, MA

The Licensing Executives Society, (U.S.A. and Canada), Inc., is the preeminent professional organization in the field of IP transfer and commercialization in the U.S.A., and Canada. It is one of 32 national and regional societies of the Licensing Executives Society International (LESI), which has over 10,000 members worldwide. The LES Foundation was established by LES (U.S.A. and Canada) to increase awareness and understanding of the licensing of intellectual property rights and to communicate the critical role licensing plays in bringing creativity and innovation to the commercial marketplace.

If you have any questions, please contact **Dr. Annemarie Meike** at **bplan@lesfoundation.org** and/or visit www.lesfoundation.org for more Competition details.

2011 LES Foundation Graduate Student Business Plan Competition Finalists

(l. to r.) 2011 Global Award Recipient, Ola Rickardsson of ShieldHeart from Lund University, Sweden and Grand Prize Winner, Matthew MacEwan of NanoMed LLC. from Washington University – St. Louis.

The Kick-off: 2012 Graduate Student Business Plan Competition

Help Mentor Tomorrow's Licensing Leaders

Dear Member,

The 2012 LES Foundation Graduate Student Business Plan Competition is underway and thanks to ongoing support from the Licensing Executives Society (U.S.A. and Canada), Inc. and LES International, the event will again be open to students from around the world. This year's Finals will take place on May 14 and 15th in conjunction with the LES (USA & Canada) Spring Meeting in Boston, MA.

As you may know, mentorship is the cornerstone of the LES Foundation Competition. Each year participants find that beyond the chance to win cash and in-kind prizes, their competition experience provides a comprehensive education about the importance and value of intellectual property (IP) as part of a successful business strategy. Through the Competition, they also enjoy unique professional mentoring and networking opportunities with members who readily volunteer to share their experience and expertise. Win or lose, the LES Competition gives each participant a significant advantage for their future, while providing member volunteers with opportunities to help shape a new generation of IP licensing professionals.

Last year, we had over 130 member volunteers. We invite your participation as we introduce this year's student participants to the field of licensing and to the many facets and benefits of the Licensing Executives Society worldwide.

Here's how you can volunteer for the 2012 LES Foundation Competition:

- Reach out and recruit a team from your alma mater or local university graduate program in business, engineering or entrepreneurship. Identify or connect us with professors of entrepreneurship. For more information contact Simmone Misra at smisra@microsoft.com
- Volunteer for the IP Mentoring Support Project. Through the magic of teleconferencing and Skype, you will be paired with a student team who will benefit from your willingness to answer questions and offer guidance via a 30 to 60-minute call. Help is needed November–February. Please contact Les Goff to get involved. *Leslie.goff@gmail.com*
- Volunteer to judge a few business plans in your area of expertise. First Round judging takes place in March and can be done from the comfort of your home or office. A rubric is provided to make the job doable for anyone who is interested in participating. Contact Dr. Annemarie Meike to sign up at *bplan@lesfoundation.org.*

Thanks to the many contributions of LES and LESI member in recruiting, mentoring, judging and networking with the students, the Competition has quickly become a celebrated part if the LES culture and a favorite among student competitors. Please consider joining us this year.

Thank you for your ongoing support of this important event.

Sincerely,

The LES Foundation Board

A foundation of LES (USA & Canada)

LESI President Alan Lewis (left); Ola Rickardsson of Global Award Recipient ShieldHeart; and Dr. Francis Gurry, Director General of WIPO.

2011 Finalist Teams from Lund University, Sweden; St. Petersburg State University, Russia; Univ. of Adelaide, South Australia; Univ. of Arkansas, USA; Univ. of Wisconsin-Madison, USA; Washington Univ.-St. Louis, USA.

Obituary—Jean-Marc Portier

It is with much sadness that we note the death of our former International President of LES, Jean-Marc Portier. Jean-Marc was not only a "giant" in the field of pharmaceutical licensing, he was also a leader in LESI, having served as President of LES France and LES International.

Jean-Marc was President of LES France in 1988 and President of LESI in 1990. He served as an International Delegate representing LES France from 1987 to 1994 and was a member of the Executive from 1989 to 1991. Jean-Marc was a senior executive of Sanofi SA and Vice President of Sanofi Japan. He brought to his role in LES a depth of experience in licensing and technology transfer from the perspective of a hands-on business executive. He was one of those instrumental in the establishment of the Health Care Products Group in LESI. Based on the model of the corresponding committee within LES USA/Canada, this, and the promotion of LES in then emerging Eastern European economies formed the focus of much of his work in LES. He was also active in the organisation of the first Pan-European Conferences of LESI. For those of us who had the privilege of being present, the second Pan-European Conference in Bordeaux will long remain in our memory with functions at leading Bordeaux Chateaux.

In addition to his professional activities, Jean-Marc served for many years in the French army and army reserve rising to the rank of Colonel. He was a true professional of the highest integrity who nevertheless enjoyed the pleasures of life, particularly his wine and relaxing at his property in the south of France. One would often be greeted by Jean-Marc at a meeting with—"I have with me a file which I think we should discuss." The "file" would be substantially cylindrical in shape and containing some of the finest of his beloved Bordeaux.

Jean-Marc was a delightful individual with a great sense of humour and an ability to make those around him feel comfortable and accepted.

Jean-Marc is survived by his charming and devoted wife, Denise, and by his children, Jean, Helene and Pascal and eight grandchildren. He is sadly missed by all who knew him.

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Notes:

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A guideline for authors can be found on our Web site at the following address: *www.lesi.org/lesnouvelles/advertise.asp#submission*

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Global Technology Impact Forum (GTIF)
Geneva, Switzerland

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IP100 Executive Forum
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Phoenix, Arizona USA

March 12-14
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Anaheim Marriott
Anaheim, California USA

March 14-17
AUTM 2012 Annual Meeting
Anaheim Marriott
Anaheim, California USA

March 30–April 1
LES International Delegates Meeting
Auckland, New Zealand

April 1–4
LES International Annual Conference
Auckland, New Zealand

May 15-17
LES (USA & Canada) Spring Meeting
Hyatt Regency Boston
Boston, Massachusetts USA

June 10–12
LES International Pan-European Conference
Rome, Italy

September 9–11
LES Scandinavia Annual Conference, Commercial-izing Creativity
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October 14–17
LES (USA & Canada) Annual Meeting
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