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The Use of a Patent Licensing Center as an Intermediary for Facilitating the Licensing of Commercially Viable, Unused Patents

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I. Introduction

1. In October 1997, the Kansai Patent Information Center in Osaka, Japan began offering a wide array of patent related services.[1] In addition to providing facilities for researching domestic and foreign patent information, patent application screening, and patent specialist training, the center will select commercially viable, unused patents and offer them to small and midsize businesses. To enhance the technology transfer component of this organization, the center will also offer mediation services to help facilitate the transfer of intellectual property between companies deadlocked in negotiation or with uneven bargaining positions (i.e., small companies attempting to license patents assigned to a Fortune 50 company). A major goal of this center is to assist in the licensing of a portion of the billions of dollars of intellectual property worldwide that is not actively used in either offensive or defensive postures. This article will (1) examine the feasibility

of such a system with an eye towards a similar patent clearinghouse in the United States and (2) the advantages and disadvantages that such a center would provide during the negotiation process.

II. Increased Acceptance of ADR in Intellectual Property Related Transactions

2. Alternative dispute resolution (ADR) is increasingly becoming popular as a conflict settlement mechanism in lieu of going to trial. ADR is particularly attractive in patent infringement suits because of the high cost of trial and the risks accompanying such a route.[2] However, during negotiations to license patents, parties have low incentive to use nontraditional settlement methods because the alternative to settlement is for the parties is to remain in the status quo ante. While the world has billions of dollars worth of unused intellectual property,[3] it is not clear that a centralized licensing center with ADR would encourage patentees to seek out potential licensing opportunities. Corporate management is already realizing that strategic exploitation of intellectual property through licensing can maximize corporate assets.[4] For example, $10 million in licensing revenues could increase the market valuation of a company with a price-earning ratio of 10 by $100 million. As a result of the benefits which may be achieved through technology transfer, nontraditional techniques are more often embraced by parties during the negotiation of agreements.

3. Within the U.S. patent system, the inventor or assignee of a patent is required to pay three annuity payments dispersed throughout the life of a patent to keep it enforceable. However, acquiring and maintaining a U.S. patent is relatively inexpensive compared to the cost of maintaining a patent in other major industrial nations. Regardless, keeping a patent "alive" requires capital. Patent annuities are major expenses for companies with large patent portfolios for which the exact return is always difficult to measure. However, even minimal revenues from commercially viable, unused patents would more than recover the cost of remaining maintenance fees during the enforceability period. From the patent holder's perspective, almost any licensing revenue results in an improved financial situation. It is therefore relatively easy for the parties to reach a "win/win" agreement.

III. Advantages of Using a Patent Center with Mediation Services as an Intermediary

4. A neutral patent center, acting as an intermediary, could help overcome the major hurdle facing many small and medium size businesses: approaching large businesses with a licensing proposal. Smaller companies who lack the resources to conduct proper research and development can become profitable by utilizing patents not practiced by other companies. A corporation advertising at a patent center clearly has an interest in finding a licensee, but this goal alone does not ensure a smooth negotiation process. A mediator interjected into the negotiations can help the parties focus on essential licensing issues including the goals for the licensing relationship, the

objectives of each of the licensing parties, the strengths and weaknesses that each party brings to the relationship, actual and potential conflicts of interest, the best interests of the particular licensing relationship and the best interests of the companies involved with regard to the licensing agreement.[5] Without mediation, a small business seeking to contact a large company such as Intel about potential licensing opportunities could exhaust its financial resources before entering into an agreement. Moreover, such a center where patents are advertised for licensing opportunities, significantly cuts down on the lengthy research stage preceding the typical negotiation process.

5. Mediation services offered by a patent center could be useful in breaking deadlocks and stalemates between the parties. By meeting with each party in private, the mediator can give an honest evaluation of the parties' respective interests and help parties bargain over interests rather than positions.[6] Mediation is most effective in situations marked by only moderate conflict.[7] Since just about any licensing agreement could be characterized as a "win/win" relationship between the parties, the potential benefits to both parties should motivate them to use the services of a mediator if they are experiencing difficulties reaching an agreement. The use of a mediator could also help the parties save face if they have entrenched themselves into deadlock. Any blame for the parties' resulting flexibility could then be deflected toward the mediator.[8]

6. A patent center may also be helpful in effectively allocating resources to those best equipped to use them. One commentator stated:

> if an innovation lies outside the mainstream of expertise in the corporation which gave it birth, other individuals and corporations should have an opportunity to nurture it to its full stature and importance in the larger industrial community. . . . Productive innovation will in general be maximized only if each new idea is put up for sale to the highest bidder, without requiring that bidder to pay for internal inefficiencies in the corporation in which the idea happens to have been conceived.[9]

With the low transactional costs and streamlined negotiation process offered by a patent center, efficient allocation of resources is more likely to occur. This theory, and those similar to it, embraces a system wherein the employee-inventor never completely forfeits to her employer the rights to her inventions protected by patent law.[10] A system based on a non-assignable patent right for the inventor would encourage innovation, though introducing a third party into the licensing process, because of the continuing financial benefit available to these employee-inventors rather than a one time year-end bonus or a promotion. Countries such as Germany have long given more expansive rights to inventors, but such a system will likely never receive acceptance in the U.S. because of the strong domestic lobbying power of big business.

7. Unrepresented patent owners and those seeking to license a patent would greatly benefit from the use of mediation services. A patent center's mediation services will inject substantive knowledge and process expertise to give a neutral evaluation of the parties' positions.[11] A mediator

specializing in patent law will know all of the important factors particular to patent law which need to be addressed in the contract: exclusivity provisions, ability to enforce the patent, indemnification procedures, etc. A patent licensing mediator, recognizing issues that often come into dispute during negotiations and later contract disagreements, will bring his or her knowledge to expedite the licensing agreement process. An experienced mediator could also enable business management from a small company to directly negotiate an agreement, rather than utilizing outside counsel as their agent. The mediator can candidly state his opinions which can reassure an unrepresented party that they are getting an agreement based on reasonable industry norms and that there is no overreaching by either party to the agreement.

8. ADR experts state that during conflict resolutions, 90% of the key information is developed through the first 10% of self-initiated work.[12] Although mediation is often seen as an extra step in the process of reaching an agreement, mediation services can be used to avoid 90% of the costs.[13] Mediation at an early stage can help prevent the formation of unreasonable positions and will help develop possible solutions by revealing the interests of the parties. As education of ADR based settlement mechanisms increase, exposure to attorneys and law students is likely to result in ADR being more widely utilized.

9. A significant question is whether attorneys are going to be willing to reduce their billable hours for relatively small projects like licensing agreements by using ADR to reach an expedited agreement. Because of the high stakes involved, client pressure for an early settlement of a patent infringement lawsuit is going to be much greater than with a licensing transaction. Attorneys will need to explain to their clients all possible methods of resolution since it is unlikely that a potential licensee would urge his or her attorney to use mediation during the negotiation of a licensing agreement. In the long run, quicker settlement times are only going to increase the efficacy of the attorney-client relationship.

IV. Patent Center as a Form of a Patent Collective

10. Collectives in the area of copyright, such as the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music, Incorporated (BMI), have been very successful in collecting hundreds of millions of dollars in licensing revenues annually for their membership.[14] These institutions typically grant blanket licenses for the use or performance of anything within their library of protected works. For example, rather than negotiating the copyright protected public performance payment of the monthly selection of jukebox CD's, a restaurant owner can pay a flat fee to organizations such as ASCAP and BMI. These organizations represent songwriters, a narrow interest when compared to the broad spectrum of science and technology eligible for patent protection. A collective in the patent arena is likely to have a broad scope because of the differing technologies which drive the domestic economy. Ann Bartow proposes a collective that would allow inventors to authorize it to

> negotiate patent licenses with entities wishing to use or manufacture members' inventions

and to administer these licenses. The collective would retain a portion of the licensing fees to cover its costs, pay its employees, and fund legal work, such as defending the validity of members' patents and bringing infringement actions against any entity that misappropriates a member's intellectual property.[15]

Bartow also suggests that such a collective could assist in underwriting the costs of patent prosecution on behalf of member inventors.[16]

11. Bartow's ideas are not likely to be implemented because of the extraordinary cost of patent litigation. This is not to say that a collective couldn't assist in the negotiation of patent licenses for small businesses. Since most companies do not have the resources to efficiently seek out potential licensees, companies that have unused patents could assign their rights to these patents to collectives in exchange for reasonable royalties on any licensing. The possibility of a significant injection of capital into the coffers of these companies would encourage the use of the collective system. Patentees that have assigned their rights to collectives would likely welcome any money for the use of their patents. This permits the parties to have lower bottom lines which would allow for greater negotiation flexibility. A clearinghouse consisting of relatively inexpensive, commercially viable intellectual property would attract small companies and entrepreneurs. Since patents are issued in a standard form, it would be very simple to have a Web-based library of available patents, further reducing the transaction times required for pre-negotiation stages. In addition, online arbitration and mediation services are being created which could further streamline the negotiation process if problems develop.[17]

12. The patent center, acting as an intermediary by advertising potential licensing opportunities, could effectively assist the parties in drafting objective contracts. The center's library could include sample agreements and standard terms and conditions based on industry standards. A Web-based system might be configured to allow the parties to cut and paste a contract together from a selection of terms and conditions. The more information available to the parties, the more likely it is that they will achieve an agreement that is fair to all concerned.

V. Horizontal Exchange Agreements

13. A patent licensing center may also be a valuable tool in fostering horizontal exchange agreements. The velocity of technological innovation and global competition often requires more from individual companies than they are able to provide.[18] This is true in part because manufacturers simply do not have the consumer loyalty that they once had because of the importance to the customer of having the most technologically advanced components. As a result, manufacturers will go to as many sources as required to build an end product for their customers. Aggressive licensing agreements can help break the traditional vertical model that takes the form: materials supplier conveys raw goods to manufacturer; manufacturer conveys processed goods to end product supplier. Additionally, such licensing agreements can allow a corporation to diversify its business relationships to help minimize risk.[19]

14. In some circumstances, a patent licensing center could be the most efficient method of bringing patent owners and licensees to a quick agreement. Rapid agreements benefit both parties by allowing an earlier introduction of the protected matter to market. While major companies might understandably be reluctant to advertise their breakthrough inventions at a patent center, the expertise of the patent center could help mediate and encourage a speedy agreement. Earlier market introduction of technological advances can help the U.S. better compete with countries such as Japan and countries within the European Union in fields such as electronics and biotechnology.

VI. International Trend

15. If patent clearinghouses such as the Kansai patent center begin to have a high level of success, companies may be more likely to acquire patents in fields or markets where they do not typically sell products. Companies could receive additional income from licensing their products in different fields of use or geographical territories where the business would not have otherwise penetrated.[20] Furthermore, agreements in foreign markets may help to later foster joint ventures with foreign licensees. Standard ADR services would help foreign attorneys or business people increase their understanding of the local law and could help overcome any cultural differences in negotiation styles.[21]

16. A successful method of acquiring licensees for newly issued patents would also have the effect of encouraging companies to seek more complete global patent protection. An Italian semiconductor company which does very little business in a country such as Korea, might spend the extra ten or fifteen thousand dollars to acquire a patent there. Without a Korean patent, the Italian semiconductor company would be forced to let the invention pass into the public domain where it would create no revenue for the company. With the services of a patent clearinghouse, the risk of not finding a potential licensee for a commercially viable patent may be acceptable when considering the licensing revenues that a successful invention could accumulate.

VII. Conclusion

17. If the Kansai Patent Center is effective at acquiring licenses for the patent holders it represents, it could act as a catalyst for similar centers across the world. Regardless of the success or failure of the Kansai model, a domestic patent clearinghouse could succeed if it embraces emerging technologies in the implementation of its internal structure. A Web-based system would dramatically cut down the pre-negotiation investigation time of potential licensees. Small companies that may not otherwise have the resources to thoroughly investigate the market of commercially viable unused intellectual property could contact the patent center directly about their interests. Small companies could also use the patent center's mediation services to ensure that they are guaranteed an even-handed agreement when dealing with larger companies.

18. The creation of a neutral patent licensing center within the U.S. would have nothing but a positive effect on technology transfer. Such a center requires relatively small start up costs and could be successful if the patent center management is selective about the patents it offers for licensing opportunities. The growth of a patent center depends on the participating parties' ability to reach fair, profitable agreements with little transaction costs. It is the participation of large corporations that will ensure the success of any patent center. Thus, a patent center must convince these corporations of the advantages of utilizing the center's services.

Addendum

19. Almost a year after this paper was written, IBM has announced that in addition to expanding their Patent Server Web site[22] to include various foreign patent filing information, the site will now include a new key feature. Patent holders who want to license their inventions can pay to have a flashing pink dot placed next to their patents in the database. Users who click on a dot will be told how to contact the patent's holder.[23] The author applauds the significant step taken by IBM and is encouraged that it will be a contributing factor to the further use and development of previously unused patent rights by small and mid-size corporations.

Footnotes

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[1] *Japan's Centre Offers Easy Access to Patent Data*, ASIA PULSE, July 29, 1997.

[2] Tom Arnold, *Why ADR?*, SB41 ALI-ABA 13, 15 (1996).

[3] Companies not practicing what is claimed within their patents often keep their patents enforceable because of the indirect value of preventing their competition from practicing what is covered by their patents. Such patents are known as "blocking patents."

[4] *See* Stuart P. Meyer, *Exploiting Intellectual Property Assets Through Licensing: Strategic Considerations*, 468 PLI/PAT 29, 76-80 (1997).

[5] Jack Russo, *Why License? Business Strategies for "WIN/WIN" Agreements*, 458 PLI/PAT 201, 213 (1996).

[6] *See* ROGER FISHER & WILLIAM URY, GETTING TO YES 41-57 (1991).

[7] ROY LEWICKI ET AL., ESSENTIALS OF NEGOTIATION at 205 (1997).

[8] The patent center may also wish to offer MEDALOA services, a hybrid process of mediation and last offer arbitration as an alternative to traditional mediation. Tom Arnold, *MEDALOA, The Dispute Resolution of Choice*, CA13 ALI-ABA 365 (1996).

[9] Jay Dratler, Jr., *Incentives for People: The Forgotten Purpose of the Patent System*, 16 HARV. J. ON LEGIS. 129, 177-78 (1979). Dratler's comments are in the context of a patent system where inventors share patent rights with the companies that employ them.

[10] *See* Ann Bartow, *Inventors of the World, Unite! A Call for Collective Action by Employee-Inventors*, 37 SANTA CLARA L. REV. 673 (1997); Robert P. Merges, *Contracting Into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CAL. L. REV. 1293 (1996).

[11] *See* Jeffrey Z. Rubin & Frank E. A. Sander, *When Should We Use Agents? Direct versus Representative Negotiation*, 4 NEGOTIATION J. Oct. 1988, at 395, 396.

[12] Todd B. Carver, *Mediating Communications and High-Tech Disputes*, 52 DISP. RESOL. J. 34, 37 (1997).

[13] *Id.*

[14] BARTOW, *supra* note 10, at 717.

[15] *Id.* at 718.

[16] *Id.*

[17] Examples of online ADR services can be found at VIRTUAL MAGISTRATE, <http://vmag.law.vill.edu/>, and ONLINE OMBUDS OFFICE, <http://www.ombuds.org/>.

[18] Jerre B. Swann, *Protecting Intellectual Property Within Horizontal Exchange Relationships*, 2 J. INTELL. PROP. L. 363, 364 (1994).

[19] *Id.*

[20] RUSSO, *supra* note 5, at 207-08.

[21] *See generally* Jennifer Mills, *Alternative Dispute Resolution in International Intellectual Property Disputes*, 11 OHIO ST. J. ON DISP. RESOL. 229-30 (1996); Julia A. Martin, *Arbitrating in the Alps Rather than Litigating in Los Angeles: The Advantages of International Intellectual Property-Specific Alternative Dispute Resolution*, 49 STAN. L. REV. 917 (1997).

[22] *See* IBM INTELLECTUAL PROPERTY NETWORK, <http://www.ibm.com/patents>.

[23] *See* Janet Rae-Dupree, *Patent Applications to Go Online*, SAN JOSE MERCURY NEWS, Oct. 15, 1998.