

**Some Comparisons of
and Comments About
Carrot and Stick Licensing**

**Robert S. Bramson
President
VAI Patent Management Corp.**

Carrot Licensing

Carrot licensing is much more about licensing technology than licensing patents. In carrot licensing, the threshold question is whether the potentially licensable technology (not the patent) will enable the licensee to make a new, better or cheaper product? The follow-on question is whether the technology can be perfected and marketed in a reasonable time, at a reasonable cost, and with a reasonable probability of success?

In carrot licensing, the patent is the "handmaiden" of the licensable technology and serves two useful purposes:

1. The patent serves as a vehicle, in a portfolio mining operation, for locating potentially valuable underlying technologies. Patents are used for this purpose, because there is usually not a good machine searchable database of technologies, so searching patents is the second best approach. In fact, searching patents for licensable technologies may on occasion be somewhat misleading because the patent is usually not written as a technical description for a licensing program. It may represent an early stage of the technology, and not the stage that is available to license. The patent also may not do a good job of describing what is important about the technology in general (as opposed to describing the "invention" covered by the patent). This is why getting good and early input about the technology from the inventor or other knowledgeable person is so important.
2. The patent may provide protection from competition to the licensee (or potential licensee) of the technology. If the licensee is successful in the marketplace with the licensed technology, and its competitors can freely copy its improved products, the technology is a lot less valuable than where there is good patent coverage to keep

competitors away (or force them to adopt inferior solutions).

Carrot licensing will usually involve an **exclusive license** to the licensee. This is the case because the licensee is highly unlikely to devote the time, money and effort to develop the licensed product, unless it has exclusivity. However, in some cases, it may be possible (and occasionally even preferable) to grant one or more other licenses. This will depend on the circumstance and it will begin with asking whether you can get a first license unless it is exclusive. Sometimes, a "lead time" exclusive is feasible, i.e. the licensee's rights are exclusive until one or two years after the commercial introduction of the licensed product.

If a licensor's product is commercial (for another application, e.g. defense) and little or no development (and therefore little licensee expense and development uncertainty) is needed, there might be a possibility of semi-exclusive (two "co-exclusive") licenses or even non-exclusive licenses. Semi-exclusive or non-exclusive strategies may not be feasible in a particular situation, but until you know enough to rule them out, they should be kept in mind, just in case.

It is also possible to grant two or more exclusive "field of use" licenses for different fields. One example that comes to mind is a situation I was involved with at Scott Paper, where an invention was licensed to Scott exclusively for paper (but not photographic paper) applications and to Kodak exclusively for photographic applications, etc.

Sometimes, but not usually, the royalty in a carrot licensing agreement is divided between "trade secrets" (also called "know how") (on the one hand) and patents (on the other hand). For example, a royalty of 2% could be paid for the use of the trade secrets and another 3% for the license under the patent. This is done for two reasons: (1) a trade secret royalty can extend beyond the expiration date of a patent, at least under U.S. law, but the patent royalty cannot, and (2) if the licensed patent is invalidated, at least some royalty is still collectible, i.e. the trade secret royalty. This is not common, but it is sometimes done. This approach should be considered when the patent has a short remaining term and the true value may reside with the trade secrets.

Carrot licensing is a friendly process. It is a selling process. You've got to convince the licensee prospect that the technology is indeed worth the effort. And you've got

to overcome the NIH (not invented here) attitude, which should not be underestimated.

Carrot licensing is almost impossible to do without a lot of assistance from knowledgeable engineers or others from the licensor in both the license sales activity (explaining why the prospect should license the technology and to answer technical questions) and, after the license is signed, in effecting the actual "technology transfer".

Stick Licensing

Part A - Licensing Stick Patents

Traditional stick licensing involves identifying infringers of a patent, telling them they're infringing the patent (and why), and offering them a license. This is lawyer-intensive, because it involves doing a legal analysis of infringement and validity of the patent, and almost always requires patent infringement litigation or, at the very least, the threat of litigation.

The "stick" licensor is not welcomed by the licensee prospect, which will do all it can to ignore the licensor, tell it why the patent is not valid or infringed, and generally try to make the licensor go away. This is a slow, unfriendly, aggressive, time-consuming, uncertain, expensive and litigious process. The perceived "pot of gold at the end of the rainbow" must be discounted by the uncertainty of litigation, time value of money, and the cost of litigation, both in out-of-pocket terms (counsel fees and expenses) and distractions to the licensor's engineers and executives that are involved in the litigation (which is always much more than anticipated; ask anybody that's been there).

Part B - Selling Stick Patents

If a patent owner is willing to sell a patent which is infringed, substantial value can sometimes be realized without the time, cost and uncertainty of traditional stick licensing.

Essentially, the patent owner must first identify patents that are infringed by third parties. This does not work well in all industries, but does often work in the

computer, electronics and telecommunications industries, because of the aggressive activities of TI, Lucent, IBM, Xerox and others. You hope to identify patent(s) that is infringed by one of the aggressors (or one of the growing ranks of would-be aggressors, as those who have been sued and lost seek to exploit the expensive lessons they have learned). For example, while TI and Samsung were in litigation (or AT&T and MCI or Cisco and Lucent, or Xerox and HP, etc.), you could have sold a TI-infringed patent to Samsung.

Samsung would have welcomed the patent "salesman" with open arms and, if a persuasive case was made for validity and infringement, could have entered into a patent purchase transaction in a reasonable time frame (sometimes three to six months) and paid a substantial sum of money for the patent. While at Unisys, we sold semiconductor patents to Samsung (among others) for "big bucks".

Sometimes, Samsung (by way of example) may also be an infringer of the patent you're trying to sell, and, if they won't buy the patent, it could be easier to persuade them to buy a license under the patent (at least you've gotten your foot in the door to make your case, which is not usually easy in a stick situation).

We have also been successful at selling a "piece" (called an "undivided interest") of a patent, for assertion in litigation and licensing against a single company. In our example, Samsung may have said that the price asked for the TI-infringed patent was too high, but they would buy (for a lesser price) an undivided interest, which would only be applicable against TI, leaving the patent owner with rights against the rest of the world.

Why would they say that? Sometimes, the prospective buyer won't want to pay the full price for the patent, because they have cross-license agreements with some of their major competitors, and, by buying the patent, they would be paying to give the cross-licensed competitors a "free ride". The patent owner would get some income from selling an undivided interest in the patent, and would retain all of its rights against other infringers. If, for example, Samsung, as the owner of an undivided interest in a patent, sued TI under the patent (which, while TI and Samsung were in litigation, could have been a real possibility), the patent owner could use that lawsuit as powerful leverage to encourage other infringing companies to take (more favorable) licenses while the lawsuit is pending.

Combining Carrot and Stick Licensing

It may be possible to combine carrot and stick licensing (or carrot licensing and sale) of a single patent or group of patents. Certainly, it is legally doable. The question is whether it is feasible to grant an exclusive license for a "field of use" to a carrot licensee and assign the ownership of the "residual" patent to a second party, subject to a carve-out for the field of use licensee. This is not a probable approach (will the field of use licensee want to put the fate of the patent in the hands of someone who is likely to litigate the patent?), but it cannot be rejected out of hand, and it could work under the right circumstances.