

# The Fundamentals of Assertive Licensing

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# Overview

1. What is a patent?
2. Carrot and stick.
3. Exclusive vs non-exclusive license.
4. What is a patent license worth?
5. The world after eBay.
6. Putting an infringer on notice.
7. Patent litigation as licensing.
8. Royalty base and royalty rates.
9. Assertive licensing: dos and don'ts



# What is a Patent

- A patents is an exclusionary right.
- A patent as a call option on bringing a lawsuit for patent infringement.
- A patent does not give its owner a right to practice a patented invention.
- A patent only gives its owner the right to exclude others from practicing a patented invention.



# Carrot and Stick



- “Carrot” licensing: voluntary licensing.
- “Stick” licensing: license my patents or else...
- Every carrot license is a stick license in disguise.



# Exclusive vs. Non-exclusive License

- Exclusive license: transfer of a patent monopoly.
- Non-exclusive license: a covenant not to sue.



# Four Licensing Scenarios

## Two Categories of *Licensors*:

1. The licensed patent is a core patent;
2. The licensed patent is a non-core or “paper” patent.

## Two Categories of *Licensees*:

1. Exclusive licensee;
2. Non-exclusive licensee.



# Licensing Matrix

<i>Licensors</i> <i>Licensee</i>	<i>Practicing Entity</i>	<i>Non-practicing Entity</i>
<i>Exclusive</i>	X	Transfer of patent monopoly
<i>Non-exclusive</i>	Franchise	Covenant not to sue



# What is a patent license worth?

- It depends...
- Value of an exclusive license = the value of the patent monopoly.
- Value of a non-exclusive license = the value of a covenant-not-to-sue.



# Present Value of a Patent

1.  $V_i(P) = \langle GP_i \rangle - GP_i = \Delta_i$  ➤ Annual value of the monopoly.
2.  $V(P) = \sum_{i=1}^l \Delta_i$  ➤ Total value of the monopoly during the patent term.
3.  $PV(P) = \sum_{i=1}^l \frac{\Delta_i}{(1 + I_i)^i}$  ➤ Present value of the monopoly, i.e. the patent value.



# Rule of Thumb

- Assumptions:
  - Patent life  $l = 17$  years
  - Discount Rate 25% ( $I=0.25$ )
- $PV=3.9\Delta$
- Patent is worth four times the value of annual monopoly.



# The World After eBay

- No automatic permanent injunction upon finding of infringement.
- Likely, no permanent injunction for non-practicing entities.
- Compulsory license: *Finisar v. DirectTV Group* (EDT).



# Putting an Infringer on Notice

- Why put an infringer on notice?
  - Marking, actual notice;
  - Laches.
- Why you should exercise caution when accuse people of infringement or threaten litigation?
  - DJ
  - Estoppel



# Declaratory Judgment

- Requires reasonable apprehension on the part of the infringer of imminent litigation.
- It's in the eyes of the beholder.
- Expect 1 DJ for every 10 infringement notices sent.



# How to reduce the Risk of DJ

Patco owns U.S. Patent Nos. 8,000,000 and 8,000,001 (the “Patents”) which relate to certain products made by InfringeCo. These products may fall within the scope of one or more claims of the Patents.

In view of the foregoing, InfringeCo should determine whether it needs to obtain a license under the Patents. Patco is making the Patents available for license on attractive terms.



# Patent Litigation as Licensing

- “You can get more with a smile and a gun than with a smile alone” – *Al Capone*.
- File a complaint, then negotiate.
- Choice of Venue.
- Contingency vs. hourly representation.

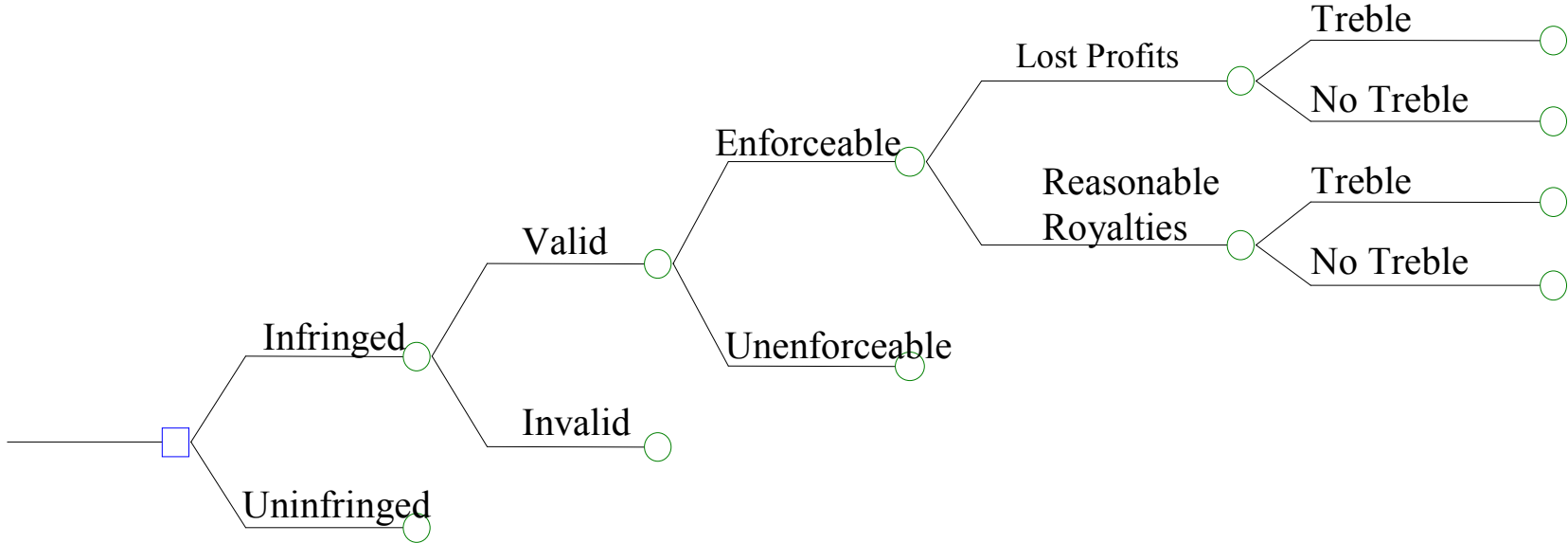


# Royalty Base and Royalty Rate

- Royalty base
  - Convoyed sales;
  - Entire Market Rule.
- Royalty rate
  - 5%;
  - The 25% Rule;
  - Georgia Pacific Factors.



# Decision Tree for Patent Litigation



# Dos and Don'ts of Licensing

Enforce thy patents	Do not accuse people of infringement or risk a DJ
Put infringers on notice	Do not threaten litigation
Always couple a notice with an offer of license	Do not bluff
Practice indiscriminatory licensing	Do not accept MFN clause
File, then negotiate	Do not accept nuisance settlements