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'Just One Good Idea'

Companies
Should Go Back
To the Basics When
Licensing Intellectual-
Property Assets

By Amar Thakur and Beni Surpin

“One good idea. Just one good idea ...” After repeated successes from the likes of Google and YouTube, and even as far back as Qualcomm and Microsoft, people often associate those words with an innovative concept and its subsequent commercialization with a billion-dollar windfall.

Companies are looking at their intellectual-property portfolios with the same hope. Many are turning to commercial and intellectual-property lawyers to help them extract just one more good idea — only this time, they are talking not about a new concept but new ways of exploiting their existing intellectual property to power efficient capital growth.

As companies consider how to make the most of their intellectual-property assets, they would do well to go back to basics, asking why, when, what and how to do so.

With regard to the why and when, the answer is easy. Companies now recognize not only that their intellectual property can be exploited through existing channels, but also that such property might become a source of commercial value outside of their core businesses. A pharmaceutical company in the life-sciences sector might realize that a blockbuster drug used to treat stroke patients can help alleviate the symptoms of Alzheimer's disease, or a computer-networking company might realize that its core patents can be applied by home-network-solutions providers.

Once a company realizes that it is sitting



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“As companies consider how to make the most of their intellectual-property assets, they would do well to go back to basics, asking why, when, what and how to do so,” write attorneys Amar Thakur, left, and Beni Surpin.

on a portfolio of valuable intellectual property — be it patents, technology or brands — that can be exploited outside of its core businesses and existing initiatives, the choice to exploit is clear. Why waste an asset you own or to which you have rights, instead of extracting its full value? Companies owe it to their shareholders to aim for full value.

Next, we must consider what can be done. Aside from the use of intellectual property for a company's core business, the trend is to segment and slice intellectual-property assets for maximum return. The trick is that such analysis is company- and portfolio-specific.

Initiatives might include licensing intellectual property to third parties for a parallel, noncompetitive but restricted use (which can be repeated with multiple uses, to the extent the property can be exploited in that way); granting a limited license to a competitor outside the company's geographic area; permitting use of the intellectual property in research and development to allow for applications in a noncompeting arena; or simply licensing the intellectual property to aftermarket

providers who offer such things as service, maintenance and parts. Our hypothetical pharmaceutical company and computer-networking company offer examples of such initiatives in play.

Other initiatives are geared toward companies retaining greater involvement and making their own efforts to implement their intellectual property outside of core businesses by granting licenses to new ventures, collaborations or specially created corporate vehicles that might be spun off. Before such measures are taken, considerable background work must be done; otherwise, they are doomed to fail.

Before strategizing which noncompeting applications can be exploited, there must be a thorough understanding of the core businesses and intellectual property of all involved, within and outside the company.

The addition of a third-party licensee, for example, can accentuate your client's core business because the licensee will help popularize the intellectual property. A handbag manufacturer might see substantial financial benefit in licensing its name to an apparel company to develop the name further. Such a move might increase handbag sales while allowing the manufacturer

to collect royalties from clothing sales.

When the contrary is true, the intellectual-property strategy must accommodate choices made in the final analysis. For example, a luxury watchmaker that licenses its name and trademark to a clothing line might reduce the exclusivity associated with its product, rendering the collaboration detrimental. Such understanding is key in assessing which of a company's technology and intellectual-property assets could offer additional value.

The "how" can be implemented in various ways. Companies with deep-enough pockets might choose to go it alone; large pharmaceutical companies, for example, often test their drug technology for other indications and varying applications.

Other companies might look for additional distribution channels and partnership opportunities reflecting their competitors' growth and expansion strategies. An exclusive wireless-phone-services provider, for example, might see substantial benefits in forming a partnership with a premium retail chain to benefit from the chain's distribution channels.

As such options are weighed, a key path to growth and additional exploitation of existing intellectual property might be the creation of business partnerships. The aim for each side is to have common bases in objectives, strategies, risks and rewards — but with a fundamental understanding that for the joint venture, strategic alliance or collaboration to thrive, the parties must share a set of essential success factors.

There are many reasons for collaboration, including a need for infusion of different intellectual-property or distribution rights or a shift in cost-of-development burdens. The reasons also might involve creative collab-

oration from various levels within the chain of manufacturing and distribution. Leading companies in a field might join forces for a cause that will prove beneficial to all.

Such common causes include "patent pools" or technology standards such as Moving Pictures Experts Group, an ISO/ITU standard for coding audiovisual information in a digitally compressed format, or Bluetooth, a wireless personal-area-network technology for short-range transmission of digital voice and data founded by such large players as Ericsson, IBM, Intel, Nokia and Toshiba.

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The types of collaboration arrangements are numerous — ranging from co-developments, joint distribution and commercialization to technology cross-licenses and sublicenses — but the common goal is clear: to make sure the whole exceeds the sum of its components.

An important consideration is each player's size and position within its industry. Relative sizes and positions tend to dictate the negotiation leverage of each party during discussions. Leverages (and, therefore, negotiations) between two equals differ dramatically from scenarios in which deals are struck between large corporations and small startups.

Close participation by the parties' attorneys is fundamental to protecting complex rights, which vary substantially case by case. An intellectual-property specialist accustomed to facing such opposites often plays a critical role in maintaining common strategic objectives and motivating both sides to resolve difficult issues.

The upside of exploiting an intellectual-property asset beyond its present use can be substantial. The strategic benefits become more evident as each success story unfolds, whether for a company going it alone or collaborating.

Players develop new markets, products and technology and share complementary methods in new ways. All of that, in turn, brings added benefits: new means and incentives to develop production and distribution facilities, new ability to acquire capital and funding, and new access to additional distribution channels, networks and sales and marketing capabilities.

We need only to look at IBM's intellectual-property-licensing model, reputed to generate more than \$1 billion annually from licenses alone, to reach the pragmatic conclusion that most of a company's revenue from intellectual-property licensing goes nearly entirely to that company's bottom line.

That brings us back to one more good idea — yes, just one more good idea. Doing it right, though, is fundamental to its success.

Amar Thakur and **Beni Surpin** are members of Sheppard, Mullin, Richter & Hampton's intellectual-property practice group in the firm's Del Mar office. This article does not constitute legal advice. Detailed discussion of legal issues relating to the subject matter of this article should be held with a legal adviser.