

# Charting A Course For Federal Patent Portfolio Licensing

or

## “Gators & Moles & Trolls – Oh My!”

Presentation to  
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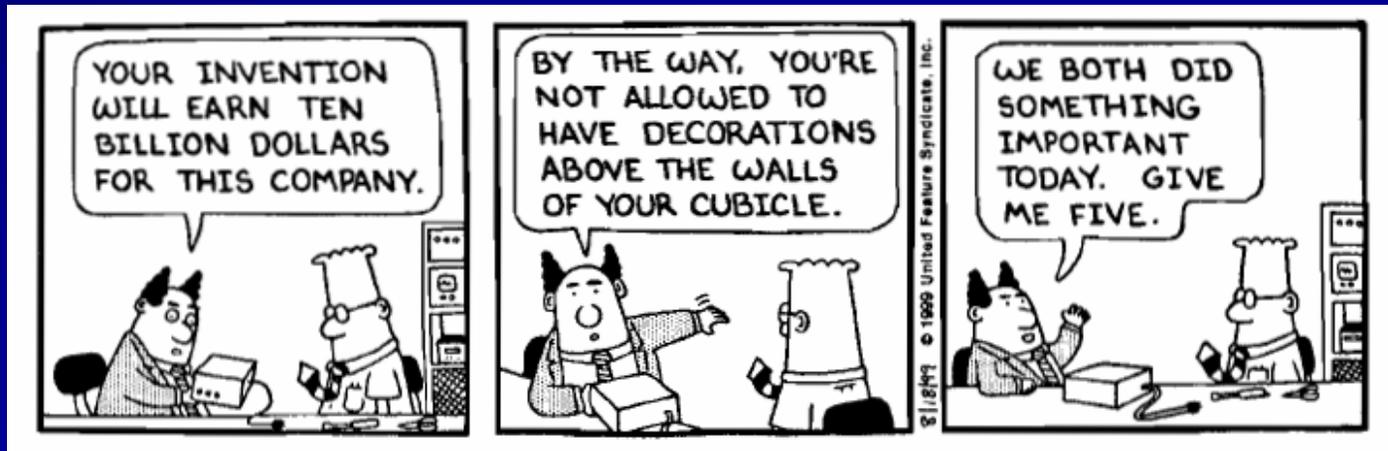
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# Charting A Course For Federal Patent Portfolio Licensing

Before We Get Started...



**How Lawyers Contribute to Technology Transfer**

# Introduction

## Overview

- Introduction – Why are we here?
- Definitions – What do we call these licensees?
- Public Policy – Are we allowed to do this?
- Federal Statutes – How do we keep it legal?
- Regulations – How do we make it work?
- Alternative Models – What are our choices?
- Wrap Up – Where do we go from here?

# Introduction

## Purpose

- The Question: What must an agency consider when contemplating a patent license agreement **when the primary aim of the licensee is NOT to bring the invention to practical application firsthand?**
- The Rationale: Federal agencies are increasingly being asked by such parties to consider licenses and are wrestling over **how to proceed in the absence of precedence or established policy.**
- The Issue: **The nature of the licensee**, not the quantity of patents (although such a licensee typically wants a volume license) defines “federal patent portfolio licensing” this presentation.
- The Focus: **Patents owned or assigned to Federal agencies** (not shared ownership), and Federal **legal framework common to all Federal entities** (e.g., NOT the 1800+ agency-unique CFRs).
- The Objective: To reflect current thinking and **further the dialogue collaborative FLC environment** while agencies are formulating their respective approaches. This is “our” presentation; not mine.
- The Disclaimer: Presentation is a **reference point for future action**; NOT legal counsel or the definitive “right” answer for every licensor agency in every situation with every prospective licensee.

# Introduction

## Presentation Contributors

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University of Denver  
National Institutes of Health  
TRSG, Inc.  
HQ Air Force Material Command  
Los Alamos National Laboratory  
TechLink  
Science Applications International Corp.  
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# Introduction

## Sources

- 15 USC §§ 3710 et seq. (Chapter 63)
- 35 USC §§ 200 et seq. (Chapter 18)
- 37 CFR §§ 404.1 et seq. (Part 404)
- DoD TTIPT Presentations (Nov 2006)
- Sample Patent License Agreements (AFRL, ARL, NIH, NRL)
- Stanford University White Paper ("In the Public Interest: Nine Points to Consider in Licensing University Technology")
- 58 Secondary Sources (contributors)

# Agenda

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# Definitions

## Gators & Gator Licenses

- Patent Aggregator (“Gator”): A non-government entity that generally wishes to acquire rights in a large volume of patents **in order to profit by typically engaging in a subsequent outsourcing action** (e.g., third party sublicenses, spin-off companies, combining seemingly unrelated technologies, assertion licensing, etc.).
- Federal Patent Portfolio License (“Gator License”): A patent license granted pursuant to 15 USC § 3710a(a)(2) and 35 USC § 207 **to a licensee who purposefully does NOT commit to “achieve practical application” of the underlying invention(s) firsthand** as described by 35 USC § 209(a)(3), etc.

# Definitions

## Gator #1 – “The Troll” (Assertion Licensee)

- Acquires IP rights that cut broadly across one or multiple technology fields with **no real intention of commercializing** inventions (despite representations to the contrary).
- Troll profits by extracting payment via assertion licensing in **absence of meaningful enhancement** to licensed technology.
- Gathers large number of patents in given technology, identifies companies in related field, then **demands license of large patent package upon threat of infringement action**.
- **Troll's assertion theory**: By operating in relevant field, **victim company likely infringing** at least one of hundreds (or thousands) of patents held by troll.
- Overwhelmed by prospect of expenditures needed to establish freedom to operate or defend onslaught of lawsuits, **companies acquiesce to paying for high-volume license** they do not need.
- Bottom Line: **Federal agencies should NOT license to known or self-declared trolls under any circumstances.**

# Definitions

## Gator #2 – “The Mole” (Value-Added Licensee)

- **Does not plan to primarily make, use, or sell products.** Instead:
  - **Builds portfolios** of similar and broadly related inventions related to multiple technologies from various primary licensors.
  - Creates and develops its own intellectual property with an eye toward **“outsourced” commercialization** (e.g., spin-off entity).
  - **Sublicenses** selected elements of acquired and indigenous patents **to product developers** for ultimate commercialization.
- **Views litigation as failure of business model** based on three beliefs:
  - **Patents best packaged for resale by distributors.** Moles offer sublicensees complete package that allows operating freedom under patents obtained from multiple sources.
  - **Innovation frequently occurs at intersection of seemingly unrelated disciplines.** Moles put together diverse claims from underlying inventions, discover & exploit resulting synergisms, and develop concepts leading to practical applications.
  - **Intellectual property is equity asset** much like shares of stock. By examining available statistics regarding income per patent, moles believe that well designed portfolios of patent licenses far outperform individual holdings.
- Bottom Line: **Moles exert positive force toward commercialization.**

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# Public Policy

## 15 USC Chapter 63

### Utilization of Federal Technology (15 USC § 3710)

(a) Policy.

(1) It is the continuing responsibility of the Federal Government to ensure the full use of the results of the Nation's Federal investment in research and development. To that end, the Federal Government shall strive where appropriate to transfer Federally owned or originated technology to State and local governments and to the private sector.

(2) Technology transfer... is a responsibility of each laboratory science and engineering professional.

### What is the policy mandate?

Technology transfer exists to "ensure the full use" of Federal R&D, and it is the laboratories' responsibility to make it happen. Nothing expressly "anti-aggregator" here.

# Public Policy

## 35 USC Chapter 18

### Rights In Inventions Made With Federal Assistance (35 USC § 200)

It is the policy and objective of the Congress to:

- use the patent system to **promote the utilization of inventions** arising from Federally supported research or development;
- to ensure that inventions made by nonprofit organizations and small business firms are used in a manner to **promote free competition and enterprise** without unduly encumbering future research and discovery;
- to **promote the commercialization and public availability of inventions** made in the United States by United States industry and labor; [and]
- to ensure that the Government obtains sufficient rights in Federally supported inventions to meet the needs of the Government and **protect the public against nonuse or unreasonable use** of inventions.

### What is the policy mandate?

Licensing of Federally-owned patents exists as essential component of technology transfer, and “protecting the public” must direct thinking of licensor agencies. Nothing expressly “anti-aggregator” here.

# Public Policy

## 37 CFR Part 404

### Licensing of Inventions – Policy and Objective (37 CFR § 404.2)

It is the policy and objective of this subpart to use the patent system to promote the utilization of inventions arising from Federally supported research or development.

### What is the policy mandate?

The terms, conditions, and procedures upon which a Federally owned invention may be licensed are prescribed to promote their utilization as an essential component of technology transfer. Nothing expressly “anti-aggregator” here.

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### **Bottom Line – Are We Allowed To Do This?**

**Yes.** Public policy does not expressly preclude licensing of federally-owned inventions to patent aggregators as an essential component of technology transfer, but it does require that the terms, conditions, and procedures upon which those inventions may be licensed **must promote the utilization of the federally-owned invention and protect the public against their nonuse or unreasonable use.**

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# Federal Statutes

## 15 USC § 3710a

### Commerce and Trade – Technology Innovation

(a) General authority. **Each Federal agency may permit** the director of any of its... Federal laboratories —

(2) to negotiate **licensing agreements** under section 207 of title 35, United States Code... **for inventions made or other intellectual property developed** at the laboratory and other inventions or other intellectual property that may be voluntarily assigned to the Government.

### What is the statutory nutshell?

The licensing of Federally-owned inventions, as an essential component of U.S. technology transfer, **must be pursued as integral to technology-based commerce.**

# Federal Statutes

## 35 USC § 207

### Patent Rights and Protection of Federally Owned Inventions

(a) Each Federal agency is authorized to—

- (1) **apply for, obtain, and maintain patents** or other forms of protection in the United States and in foreign countries on inventions in which the Federal Government owns a right, title, or interest;
- (2) **grant nonexclusive, exclusive, or partially exclusive licenses** under Federally owned inventions, royalty-free or for royalties or other consideration, and on such terms and conditions... **as determined appropriate in the public interest**;
- (3) undertake all other suitable and necessary steps to **protect and administer rights to Federally owned inventions** on behalf of the Federal Government either directly or through contract... **to facilitate the licensing** of a Federally owned invention...

### What is the statutory nutshell?

Patent licenses, as an essential component of U.S. technology transfer, **must arise from the protection and administration of Federally owned IP rights in a manner consistent with the public interest.**

# Federal Statutes

## 35 USC § 209

### Licensing Federally Owned Inventions

- (a) Authority. A Federal agency **may grant an exclusive or partially exclusive license** on a Federally owned invention... only if—
- (1) granting the license is a **reasonable and necessary incentive to—**
    - (A) call forth the investment capital and expenditures needed to **bring the invention to practical application**; or
    - (B) otherwise **promote the invention's utilization by the public**;
  - (2) the Federal agency finds that **the public will be served** by the granting of the license, as indicated by the applicant's intentions, plans, and ability to bring the invention to practical application or otherwise promote the invention's utilization by the public, and that the **proposed scope of exclusivity is not greater than reasonably necessary** to provide the incentive for bringing the invention to practical application, as proposed by the applicant, or otherwise **to promote the invention's utilization by the public**;

# Federal Statutes

## 35 USC § 209 (continued)

### Licensing Federally Owned Inventions

(3) the applicant makes a commitment to achieve practical application of the invention within a reasonable time, which time may be extended by the agency upon the applicant's request and the applicant's demonstration that the refusal of such extension would be unreasonable;

(4) granting the license will not tend to substantially lessen competition or create or maintain a violation of the Federal antitrust laws; and

(5) in the case of an invention covered by a foreign patent application or patent, the interests of the Federal Government or United States industry in foreign commerce will be enhanced.

(b) Manufacture in United States. A Federal agency shall normally grant a license under section 207(a)(2) to use or sell any Federally owned invention in the United States only to a licensee who agrees that any products embodying the invention or produced through the use of the invention will be manufactured substantially in the United States.

# Federal Statutes

## 35 USC § 209 (continued)

### Licensing Federally Owned Inventions

(c) Small business. First preference for the granting of any exclusive or partially exclusive licenses under section 207(a)(2) shall be given to small business firms having equal or greater likelihood as other applicants to bring the invention to practical application within a reasonable time.

(d) Terms and conditions. Any licenses granted under section 207(a)(2)... shall include provisions—

(1) retaining a nontransferable, irrevocable, paid-up license for any Federal agency to practice the invention or have the invention practiced throughout the world by or on behalf of the Government of the United States;

(2) requiring periodic reporting on utilization of the invention, and utilization efforts, by the licensee, but only to the extent necessary to enable the Federal agency to determine whether the terms of the license are being complied with, except that any such report shall be treated by the Federal agency as commercial and financial information obtained from a person and privileged and confidential and not subject to disclosure under § 552 of title 5; and

# Federal Statutes

## 35 USC § 209 (continued)

### Licensing Federally Owned Inventions

(3) **empowering the Federal agency to terminate the license** in whole or in part if the agency determines that—

(A) **the licensee is not executing its commitment to achieve practical application of the invention**, including commitments contained in any plan submitted in support of its request for a license, and the licensee cannot otherwise demonstrate to the satisfaction of the Federal agency that it has taken, or can be expected to take within a reasonable time, effective steps to achieve practical application of the invention;...

(f) Plan. No Federal agency shall grant any license under a patent or patent application on a Federally owned invention **unless the person requesting the license has supplied the agency with a plan for development or marketing of the invention**, except that any such plan shall be treated by the Federal agency as commercial and financial information obtained from a person and privileged and confidential and not subject to disclosure under section 552 of title 5.

# Federal Statutes

## 35 USC § 209 (continued)

### What is the statutory nutshell?

- Despite the alternative language of § 209 (a)(1) and (a)(2) (i.e., “practical application” vs. “promoting utilization”), the statute’s **multiple provisions repeatedly point to the centrality of bringing inventions to practical application.**
- Applicant’s “commitment to achieve practical application of the invention” implies, but does NOT expressly require, that commitment to be firsthand, either entirely or in part.
- Thus, the central focus on the licensor agency must be to ensure the aggregator licensee enables “practical application within a reasonable time.”
- This is how agencies fulfill the public policy mandate to “make full use” of inventions and “protect the public against nonuse or unreasonable use” as an essential component of U.S. technology transfer.

# Federal Statutes

## 35 USC § 201(f)

### Statutory Definition of “Practical Application”

“The term “practical application” means to manufacture... to practice... or to operate... ; and, in each case, under such conditions as to **establish that the invention is being utilized** and that its benefits are... available to the public on reasonable terms.”

### What is the statutory nutshell?

The “alternative” provisions of § 209(a)(1) and (a)(2) are not alternatives after all: “Promoting the invention’s utilization by the public” IS ACHIEVED BY “**bringing the invention to practical application.**” these provisions are effectively one in the same – they call for the same result. Moreover, no contradiction with § 209(a)(3).

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### **Bottom Line – How Do We Keep It Legal?**

To comply with the law, **the licensor agency must ensure the aggregator licensee, firsthand or otherwise, enables bringing the invention to practical application within a reasonable time.** This is how the laboratory “protects the public against nonuse or unreasonable use” of federally-owned inventions.

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# Regulations

## Regulatory Authority / Licensee Qualification

### REGULATORY AUTHORITY

35 USC § 208 Provides **authority for Federal regulatory law governing licensing of Federally-owned patents** as an essential component of technology transfer.

37 CFR Part 404 Prescribes **“terms, conditions, and procedures upon which a federally-owned invention may be licensed.”**

### LICENSEE QUALIFICATION

37 CFR § 404.8(e) **Application for license shall include nature and type of applicant's business**, identifying products or services which applicant has successfully commercialized...

37 CFR § 404.8(h)(2) **Application for license shall include detailed description of applicant's plan for development or marketing of invention, or both**, including statement as to applicant's capability and intention to fulfill plan, including information regarding manufacturing, marketing, financial, and technical resources.

# Regulations

## Exclusive License Standards

[REGULATORY RESTATEMENT OF 35 USC § 209(a)]

37 CFR § 404.7(a)(1)(ii) Exclusive, co-exclusive, or partially exclusive license granted only if:

- (A) **public will be served** in view of applicant's intentions, plans...
- (B) **reasonable and necessary incentive** to call forth investment capital and expenditures needed...
- (C) **scope of exclusivity is not greater than reasonably necessary** to provide the incentive...  
**to bring invention to practical application or otherwise promote invention's utilization by public.**

37 CFR § 404.7(a)(1)(iii) Exclusive, co-exclusive, or partially exclusive license granted **only if license will not substantially lessen competition** or create or maintain violation of Federal antitrust laws.

37 CFR § 404.7(a)(1)(iv) Exclusive, co-exclusive, or partially exclusive domestic licenses granted only if first **preference given to small business** submitting plans having equal or greater likelihood as those from other applicants to bring invention to practical application within reasonable time.

# Regulations

## Commercialization Plan

37 CFR § 404.5(a)(1) License granted only if applicant has supplied agency with satisfactory plan for development or marketing of invention, or both, and with information about applicant's capability to fulfill the plan.

37 CFR § 404.5(b)(5) License shall require licensee to carry out plan for development or marketing of invention, or both, to bring invention to practical application within reasonable time and continue to make benefits of invention reasonably accessible to public.

37 CFR § 404.8(h)(1) Application for license shall include detailed description of applicant's plan for development or marketing of invention, or both, including statement of time, nature and amount of anticipated investment of capital and other resources which applicant believes will be required to bring invention to practical application.

# Regulations

Reporting / Manufacturing / Sublicensing / Infringement

## UTILIZATION REPORTING

37 CFR § 404.5(b)(6) License shall require licensee to report **periodically on utilization** or efforts at obtaining utilization.

## U.S. MANUFACTURING

37 CFR § 404.5(a)(2) Licensee must agree that **products embodying invention or produced through use of invention will be manufactured substantially in United States.**

## SUBLICENSING BY LICENSEE

37 CFR § 404.5(b)(4) License may provide licensee right to grant **sublicenses** under license, subject to approval of agency.

## INFRINGEMENT ACTIONS

37 CFR § 404.5(b)(2) License may grant licensee right of enforcement **of licensed patent without joining agency.**

# Regulations

## License Termination

37 CFR § 404.5(b)(8) Right of agency to terminate license if licensee:

- (i) is **not executing** commitment to achieve practical application of invention;
- (iii) has **willfully made false statement** or **willfully omitted material fact** in application or report; or
- (v) found by court to have **violated Federal antitrust laws**.

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### Bottom Line – How Do We Make It Work?

To be effective, the **licensor agency** must develop and implement a **unifying approach** that:

- **Brings invention to practical application in a reasonable time;**
- **Informs the application process, license agreement, and monitoring plan** (i.e., a single lens from cradle-to-grave);
- **Considers case law, complies with “terms, conditions, and procedures” of 37 CFR Part 404, and comports with agency-unique guidance.**

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# Alternative Models

## Licensee Qualification

BROKER	SURROGATE
<p>Licensee is <b>qualified on the basis of capability as “reseller” of patents</b>. The “nature and type” of applicant licensee’s business, and those “products or services” which applicant licensee has successfully commercialized <b>MAY include firsthand product development or in role as patent intermediary</b>.</p> <p>In addition to <b>marketing milestones</b>, license may include funding milestones depending upon substance of financial data (e.g., Fortune 500 vs. start-up) and breadth of patents currently held by licensee.</p>	<p>Licensee is <b>qualified on the basis of capability to act in place of licensor</b>. The “nature and type” of applicant licensee’s business, and those “products or services” which applicant licensee has successfully commercialized <b>MUST include firsthand product development and in role as patent intermediary</b>.</p> <p>In addition to <b>commercialization milestones</b>, license may include funding milestones depending upon substance of financial data (e.g., Fortune 500 vs. start-up) and breadth of patents currently held by licensee.</p>

# Alternative Models

## Licensee Qualification (continued)

BROKER	SURROGATE
<p>Due diligence by licensor agency is key – must closely examine whether licensee applicant has resources (human and financial) and established <b><i>track record as patent reseller</i></b>, as well as researching evidence of deceptive business practices, controversial litigation, etc.</p>	<p>Due diligence by licensor agency is key – must closely examine whether licensee applicant has resources (human, materiel, and financial) and established <b><i>track record as patent reseller and product developer</i></b>, as well as researching evidence of deceptive business practices, controversial litigation, etc.</p>
<p><b><i>Federal Register notice</i></b> written to reflect that licensee is aggregator and patent reseller; <b><i>used to advertise availability of patents in IP marketplace</i></b> in combination with patent portfolio held by licensee.</p>	

# Alternative Models

## Exclusive License Standards

BROKER	SURROGATE
<p>Licensee closely scrutinized to <b><i>ensure that when license is combined with existing portfolio, licensor agency does not place licensee in position of being able to “substantially lessen competition</i></b> or create or maintain violation of Federal antitrust laws.”</p>	
<p><b><i>Focus of small business preference on sublicensees</i></b> as ultimate recipient of license, but may also be applied to small business qualified licensee applicant submitting plans “having equal or greater likelihood” as those from other licensee applicants.</p>	<p><b><i>Focus of small business preference on licensee</i></b> applicant submitting plans “having equal or greater likelihood” as those from other licensee applicants (aggregator or otherwise), <b><i>as well as sublicensees as ultimate recipient of license.</i></b></p>

# Alternative Models

## Exclusive License Standards (continued)

BROKER	SURROGATE
<p><i>Exclusive license granted on short-term basis only, but with express provision for modifications of exclusivity periods: Gives aggregator licensee greater flexibility to pursue sublicensees while concurrently preserving licensor agency ability to enforce marketing and (ultimately) commercialization milestones.</i></p>	<p><i>Exclusive license granted on short- or mid-term basis depending upon licensee strategy (i.e., in-house bundling with spin-off vs. third party sublicensing), but with express provision for modifications of exclusivity periods: Balances need for licensee flexibility with licensor agency commercialization milestone enforcement.</i></p>

# Alternative Models

## Commercialization Plan

BROKER	SURROGATE
<p><i>“Bringing invention to practical application” means licensee has identified qualified sublicensee seeking to commercialize invention, either as individual patent or bundled with other federal and non-federal patents; thus, commercialization plan is limited primarily to “brokering” task (i.e., marketing patents to prospective sublicensees).</i></p>	<p><i>“Bringing invention to practical application” defined pursuant to statute, either firsthand or via third party sublicensee; i.e., “to manufacture... to practice... or to operate... to establish that the invention is being utilized and that its benefits are... available to the public on reasonable terms” (35 USC § 201(f)); thus, commercialization plan is comprehensive (e.g., marketing patents to prospective sublicensees, product developmental milestones, business plan requirements, technical and financial benchmarks, etc.)</i></p>

# Alternative Models

## Commercialization Plan (continued)

BROKER	SURROGATE
<p>Fulfills policy and legal framework of federal patent licensing built upon bringing invention to practical application by <b><i>defining license success in terms of third party (sublicensee) commitment to commercialization.</i></b></p> <p>Commercialization plan graded on soundness and demonstrated <b><i>ability to package, market, and broker patents to third parties</i></b> with track record of “bringing inventions to practical application” in the marketplace.</p>	<p>Fulfills policy and legal framework of federal patent licensing built upon bringing invention to practical application by <b><i>defining license success in terms of commercialization by licensee or third party.</i></b></p> <p>Commercialization plan graded on soundness and demonstrated <b><i>ability to package, market, broker, and oversee patents to third parties</i></b> with track record of “bringing inventions to practical application” in the marketplace <b><i>or create and manage in-house / spin-off entities accordingly.</i></b></p>

# Alternative Models

## Commercialization Plan (continued)

BROKER	SURROGATE
<p><i>Licensors agency retains complete statutory responsibility and authority for sublicensing agreements</i> – selecting sublicensee applicants identified and pre-qualified by licensee; ensuring legality and negotiation of agreement terms; enforcement of sublicense into perpetuity; royalties management.</p> <p>Licensee’s business model closely examined to <i>minimize risk of misunderstanding of licensee’s intent</i>, particularly when there is evidence (or even suspicion) that licensee may seek assertion sublicensing via infringement strategy.</p>	<p><i>Licensee assumes nearly complete statutory responsibility and authority for sublicensing agreements</i> – identifying, screening, and selecting sublicensees (subject only to licensor approval); ensuring legality and negotiation of agreement terms; enforcement of sublicense into perpetuity; royalties management.</p> <p>Licensee’s business model closely examined <i>to minimize risk of misplaced confidence by licensor in licensee’s ability to act on its behalf</i>, particularly when there is evidence (or even suspicion) that licensee may seek assertion sublicensing via infringement strategy.</p>

# Alternative Models

## Commercialization Plan (continued)

BROKER	SURROGATE
<p>“Statement of time, nature and amount of anticipated investment of capital and other resources which applicant believes will be required” <i>framed in the context of securing qualified sublicensee(s)</i> that will commercialize invention.</p>	<p>“Statement of time, nature and amount of anticipated investment of capital and other resources which applicant believes will be required” <i>framed in the context of bringing invention to practical application, either firsthand or by “outsourcing” to sublicensee(s).</i></p>

# Alternative Models

## Utilization Reporting

BROKER	SURROGATE
<p>Periodic utilization reporting <i>recast in terms of marketing progress and "resale" initiatives aimed at securing third party product development</i>, including but not limited to, innovative bundling and IP marketplace presentation of licensed patents with licensee's own inventions and other federal and non-federal patents.</p>	<p>Periodic utilization reporting <i>viewed in terms of ultimate commercialization; licensee accountable to licensor agency as "prime contractor"</i> charged with bringing invention to practical application, from patent portfolio repackaging, to securing sublicenses or creating spin-off entities, to oversight of product development and manufacturing, to monitoring of sales and royalty payments.</p>

# Alternative Models

## U.S. Manufacturing

BROKER	SURROGATE
<b><i>Facial application of regulatory provision:</i></b> "Licensee must agree that products embodying invention or produced through use of invention will generally be manufactured substantially in United States."	
<b><i>Minimal requirement for licensee because sublicensee manufacturer selection rests with licensor agency.</i></b>	<b><i>Important requirement for licensee because sublicensee manufacturer selection rests with licensee.</i></b>

# Alternative Models

## Sublicensing by Licensee

BROKER	SURROGATE
<p>Sublicensing <i>shifts from secondary or optional activity to primary objective</i> of license agreement.</p> <p><i>Related provisions in license recast as brokering effort by licensee with comprehensive authority and oversight vested in licensor agency</i> (vs. simple "approval authority") over licensee-authored sublicenses.</p> <p><i>Sublicensees responsible for carrying out commercialization plan</i> within a reasonable time and make the benefits of the inventions "reasonably available to the public."</p>	<p>Sublicensing <i>shifts from secondary or optional licensee activity to one means of commercialization.</i></p> <p><i>Related provisions in license recast as part of overall commercialization effort by licensee with comprehensive authority and oversight vested in licensee</i> (licensor retaining only "approval authority") over licensee-authored sublicenses.</p> <p><i>Licensee and sublicensees mutually responsible for carrying out commercialization plan</i> within a reasonable time and make the benefits of the inventions "reasonably available to the public."</p>

# Alternative Models

## Sublicensing by Licensee (continued)

BROKER	SURROGATE
<p>License expressly provides that <b><i>prospective sublicensees be identified to licensor agency when a resultant agreement would "make the benefits of the invention reasonably accessible to the public"</i></b> even if not ideal for licensee.</p>	
<p><b><i>"Scaling Effect" expressly provided for in license agreement</i></b> – allows limitation by licensor agency upon quantity of Federal patents included in single sublicenses to <b><i>ensure that subsequent sublicensing agreements "will not substantially lessen competition or create or maintain violation of Federal antitrust laws."</i></b></p>	

# Alternative Models

## Infringement Actions

BROKER	SURROGATE
<p><i>“Right of enforcement” provision limited in scope and time commensurate with role of broker licensee</i> to ensure protection of patent boundaries and mitigate threats to commercialization while concurrently insulating licensor agency from litigation.</p>	<p><i>“Right of enforcement” provision strengthened to equip surrogate licensee with needed authority</i> to affirmatively protect patent boundaries and mitigate threats to commercialization while concurrently insulating licensor agency from litigation.</p>
<p><i>Licensor agency removes ambiguity in “right of enforcement” clause by expressly barring licensee from engaging in litigation or action that would give rise to the apprehension of civil action (e.g., “cease and desist” letters) without prior written approval by licensor.</i></p>	
<p><i>“Broker” Alternative: “Right of enforcement” provision struck from license altogether, preventing licensee from pursuing litigation and removing delegation of authority – enforcement right and duty retained exclusively by licensor agency until shifted to sublicensee in subsequent agreement.</i></p>	

# Alternative Models

## Infringement Actions (continued)

BROKER	SURROGATE
<p><i>Provision extinguishes upon granting of sublicense; subsequent rights and duties "assigned" to commercialization principal</i> since product development and royalties rests with sublicensee.</p>	<p><i>Provision survives granting of sublicense; subsequent rights and duties mutually vested by agreement between licensee and commercialization principal</i> since responsibility for product development and royalties ultimately rests with licensee.</p>
<p>Frames litigation of licensed patents as <i>material term of agreement</i>.</p>	
<p><i>Requires annual report on licensee litigation of Federal patents</i> (creates an affirmative duty to report).</p>	
<p><i>Terminates agreement for cause effective with earliest date of enforcement action</i> if enforcement sought without agency licensor approval.</p>	

# Alternative Models

## License Termination

BROKER	SURROGATE
<p>Right of licensor agency to terminate agreement if licensee “not executing commitment to achieve practical application” remains, but <b><i>enforced pursuant to redefinition of “practical application” requiring licensee to identify qualified sublicensees</i></b> seeking to directly commercialize invention.</p>	<p>Right of licensor agency to terminate agreement if licensee “not executing commitment to achieve practical application” remains and <b><i>enforced pursuant to statutory definition of “practical application” requiring licensee to directly or indirectly commercialize invention</i></b> (e.g. sublicensee, spin-off entity, etc.).</p>
<p>Termination provision related to adjudicated violation of Federal antitrust laws <b><i>expressly defines actions by licensee “substantially” lessening competition to include assertion licensing or withholding of patents from qualified parties.</i></b></p>	

# Alternative Models

## Other Considerations

BROKER	SURROGATE
<p>Royalties structured to incentivize licensee, but with <b><i>greatest financial rewards tied to completed sublicenses or commercialization by sublicensees vs. licensee's firsthand product sales.</i></b></p> <p><b><i>Offers control over sublicensing and commercialization by limiting role of licensee, but increases management oversight by licensor agency</i></b> for matters such as royalties, sublicensing, etc.</p>	<p>Royalties structured to incentivize licensee, with <b><i>greatest financial rewards tied to commercialization by sublicensees OR licensee's firsthand product sales.</i></b></p> <p><b><i>Offers consolidation of management oversight that simplifies matters such as royalties, sublicensing, etc., but increases risk to licensor agency of error or abuse by licensee.</i></b></p>

# Introduction

## Overview

- Introduction – Why are we here?
- Definitions – What do we call these licensees?
- Public Policy – Are we allowed to do this?
- Federal Statutes – How do we keep it legal?
- Regulations – How do we make it work?
- Alternative Models – What are our choices?
- **Wrap Up – Where do we go from here?**

# Wrap Up

## Answering “The Question”

- Who are the target licensees? **Value-added patent aggregators.** We do NOT do business with assertion-focused patent aggregators.
- Are we allowed to do this? **Yes.** Public policy requires that the terms, conditions, and procedures upon which those inventions may be licensed **must promote full utilization of the federally-owned invention and protect the public against their nonuse or unreasonable use.**
- How do we keep it legal? To comply with the law, the licensor agency **must ensure licensee, firsthand or otherwise, enables bringing the invention to practical application within a reasonable time.**
- How do we make it work? To be effective, the licensor agency **must develop and implement a unifying approach** (i.e., a single lens cradle-to-grave) that informs the application process, license agreement, and monitoring plan, and conforms to the law and agency-unique guidance.
- What are our choices? The licensor agency **may select a single approach** for all aggregator licensing **or choose a different approach for each aggregator** based on the totality of the circumstances.
- Bottom Line: In the context of federal patent portfolio licensing, doing business with a patent aggregator **requires thinking outside the box, not trying to shove a square peg into a round hole.**

# Wrap Up

## What Happens Next

Where do we go from here? Licensor agencies need a game plan that positions them to engage with patent aggregators AND passes the “60 Minutes” check.

Recommendation: Patent Aggregator Guidebook.

- Rationale for aggregator patent portfolio licensing.
- Interpretation of statutes, regulations, case law, and agency policy conforming to aggregator licensing.
- Unifying agency approach/approaches to aggregators.
  - Aggregator-unique applicant screening process.
  - Aggregator-unique commercialization plan ROE.
  - Aggregator-unique license terms and negotiations.
  - Aggregator-unique strategy for monitoring licenses.
- Think legal, workable, effective, and DEFENSIBLE.

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# Back-Up Chart

## Speaker Biography

Mark R. Thomas is Managing Director of The Reid Group LLC, a defense and federal technology transfer consulting firm in Denver, Colorado. Retired from active duty in 2004, Lt Colonel Thomas is an engineer, aviator, author, consultant, and career military officer with more than twenty five years of leadership and technology experience in government and industry.

An electrical and flight test engineer by training, Colonel Thomas' exemplary military career included assignments as technology architect of the U.S. Air Force's conventional weapons portfolio; the Defense Department's future joint, interagency, and multinational war fighting capability; and the Federal Government's combined nuclear command and control system. He coauthored the first joint tactical missile technology roadmap in the Department of Defense, led an unprecedented government-industry initiative to provide military launch and on-orbit support for commercial satellite systems, and spearheaded the most successful military aircraft modernization program in the United Kingdom's recent history. He later served as Deputy Commander of a Space Development & Test Group with more than 500 personnel and a \$1.3 billion annual budget.

Colonel Thomas' military awards and decorations include the Airman's Medal (Heroism); the Defense Meritorious Service Medal; the Air Force Meritorious Service Medal with two oak leaf clusters; the Joint Service Commendation Medal; the Air Force Commendation Medal with one oak leaf cluster; the Air Force Achievement Medal; the National Defense Service Medal with one bronze star; the Global War on Terrorism Service Medal; the Air and Space Campaign Medal (Operation ALLIED FORCE); the Military Outstanding Volunteer Service Medal; and the NATO Kosovo Medal. He is the 1993 recipient of the Air Force Association's Lieutenant General Richard C. Henry Leadership Award, and was twice named Company Grade Officer of the Year at the Wing level.

Colonel Thomas is also the author of numerous papers addressing engineering, military, and legal topics, including *Moebius Loop Instrumentation in Electromagnetic Pulse Simulation Testing*; *Non-Lethal Weaponry: A Framework for Future Integration*; *U.S. Northern Command & Department of Homeland Security: National Command Authority Relationships*; *Memorial Day: Remembering, Reflecting, Rededicating*; *Losing Faith – Judicial Protection of Religious Freedoms in Tenth Circuit Prisons*; and *An Essential Statutory Blueprint For Licensing Federal Technology Patents*. Colonel Thomas holds graduate degrees in business and operational warfare, and has earned postgraduate credentials in defense systems management, national security strategy, and federal procurement policy.

Colonel Thomas recently completed his Juris Doctor degree at the University of Denver Sturm College of Law, where he was the Ben S. Wendelken scholar, served as Business & Technology Editor of the Denver University Law Review, and was recipient of the 2007 Outstanding Student Leadership Award. Active in faith-based charities and community service, Colonel Thomas also serves on the advisory boards of local civic organizations and national ministries. He will enter legal practice in Fall 2007 as a patent attorney specializing in federal technology transfer law.

Colonel Thomas resides in Denver with his wife and three children.

# Back-Up Chart

## Common Argument #1

ISSUE/ARGUMENT: **Economic Calculus & "The Public Good"**

### PRO:

- **Taking invention to market is daunting challenge** requiring business acumen & financial investment – not the mission of federal agencies.
- Licensee with competence in "reselling" patents for production presents licensor with **"opportunity cost" of NOT portfolio licensing.**
- In absence of dedicated commercial venture willing to take invention to market, many **patents likely to lie fallow**, contrary to public policy.
- Packaging federal patents with related IP from other non-government sources and sublicensing it makes it **more likely that the federal patents will be reduced to practical application.**

### CON:

- **Licensee may inhibit innovation** by acquire wide breadth of patents.
- Licensee may **WITHHOLD** patents from viable sublicensee seeking practical application of inventions because of more lucrative alternative appears elsewhere (i.e., **financial mercenary**).
- "Outsourcing" commercialization **risks diluting royalties** gained from invention.

# Back-Up Chart

## Common Argument #2

ISSUE/ARGUMENT: Effectiveness of Invention Commercialization Process

### PRO:

- Government does not create products for the marketplace; federal inventors have few options for getting their inventions to production.
- Specialized licensing entities are capable of disseminating technology into entrepreneurial community capable of product development.
- Portfolio licensing gives licensee more opportunities for risk abatement, while simplifying many "overhead" functions for licensor (e.g., management of royalties, sublicensing, etc).

### CON:

- "Outsourcing" commercialization could delay time-to-market by patent "burying."
- Licensee may be intent on moving items to market OR may focus on manipulating patents to influence unrelated market dynamics.
- Smorgasbord approach to sublicensing makes it nearly impossible to effectively trace and enforce public policy requirements associated with licenses (e.g., royalties, U.S. manufacturing, reporting, small business preference, etc.).

# Back-Up Chart

## Common Argument #3

ISSUE/ARGUMENT: Sanctioning of Patent Trolls by Federal Agency

### PRO:

- Licensees seeking to outsource commercialization seek strategic **profitability via third party developers** and are litigation-adverse.
- Good faith efforts to outsource production and delivery to market demonstrates **business model polarized from assertion licensing**.
- Where only small group of patents are involved AND sublicensee is making products based on licensed invention, **litigation against infringer likely viewed as legitimate defensive action**.

### CON:

- **In media, perception IS reality** – licensor agency may be publicly associated with “patent troll” activities and draw adverse public / congressional **outcry irrespective of underlying truth**.
- Licensee filing infringement suit – particularly before effective commercialization of the licensed inventions – **likely to be perceived as assertion-oriented... and licensor agency viewed as complicit**.

# Back-Up Chart

## 35 USC § 209

### Key Provisions

- **Granting of license allowed ONLY upon satisfaction of four elements:** (1) "reasonable and necessary incentive"; (2) "public will be served"; (3) "applicant makes a commitment to achieve practical application"; and (4) not tend to "substantially lessen competition." § 209(a)(1)–(a)(4)
- Test of elements (1) and (2) above **hinges on "bringing the invention to practical application OR otherwise promoting the invention's utilization by the public."** § 209(a)(1) and (a)(2).
- Applicant's "commitment to achieve practical application of the invention" implies, but does NOT expressly require, that commitment to be firsthand, either entirely or in part (i.e., where a licensee develops an invention to a point short of full commercialization, then either sells itself or sublicenses the technology to other entity); and **does not mention "or otherwise promote the invention's utilization by the public."** § 209(a)(3)

# Back-Up Chart

## 35 USC § 209 (continued)

### Key Provisions

- “A reasonable time, which time may be extended by the agency upon the applicant’s request and the applicant’s demonstration that the refusal of such extension would be unreasonable” strongly suggests **statutory importance of “reasonable time” in achieving practical application.** § 209(a)(3)
- Substantial manufacture in the United States of “any products embodying the invention or produced through the use of the invention” casts a **very broad net on manufacturing.** § 209(b)
- **Small business preference** is a mandate and is **predicated upon “bringing the invention to practical application** within a reasonable time.” § 209(c)
- Required **“periodic reporting on utilization** of the invention” and related efforts by licensee **underscores statutory importance of “bringing the invention to practical application** within a reasonable time.” § 209(d)(2)

# Back-Up Chart

## Case Law: Joinder of Licensor Agency

### Nutrition 21 v. United States, 930 F.2d 862 (Fed. Cir. 1991)

- 35 USC § 207(a)(2) "somewhat ambiguous in that the phrase "right of enforcement" is undefined."
- Statute does not expressly address whether "right of enforcement" encompasses right of licensee to maintain an infringement suit without the federal agency licensor as a co-party.
- **Suit may be brought by a licensee without the United States as a party.**

### Embrex, Inc. v. Service Eng'g Corp., 1998 U.S. Dist. LEXIS 15143 (E.D.N.C. 1998)

- Challenge to Federal agency action generally requires agency participation per 5 USC § 703. However, Federal Circuit held agencies are not equipped for patent enforcement cases; huge litigation and discovery costs would thwart purpose of Bayh-Dole & Stevenson-Wydler.
- Pursuant to 35 USC § 207, **agencies delegating enforcement rights to licensees cannot be forced to participate in patent infringement suit.**

### Aggregator Licensing Issue:

- Irrespective of license terms and court intent, **ruling might be used by licensee to pursue infringement action without notification to licensor agency.**
- **Increased risk to licensor agency of undesired enforcement action by aggregator licensee (vs. single patent licensee).**
- Takeaway: **Need expressly defined "right of enforcement" license provisions and proactive monitoring plan to mitigate risk.**

# Back-Up Chart

## Case Law: Modification of Exclusivity Period

Service Eng'g Corp. v. USDA, 1999 U.S. Dist. LEXIS 21952 (D. Md. 1999)

- Patent licenses “may be modified . . . upon mutual agreement of the Federal agency and the licensee” pursuant to 37 CFR § 404.5(b)(10).
- Nothing in statute (33 USC §§ 200 et seq.) or regulations indicates period of exclusivity is not a term of agreement that is subject to modification.
- **Agency licensor not required to publish notice or make any factual findings before modifying patent license.**

Aggregator Licensing Issue:

- **Ruling provides important “freedom of action” for licensor agency** wanting to reduce license risk and related exposure by initially restricting period of exclusivity granted to patent aggregator licensee.
- Affords licensor agency opportunity to **repeatedly extend period of exclusivity with minimal transaction cost and without public challenges** to action arising from Federal Register notice.
- Allows licensor agency to grant exclusive license to patent aggregators on short-term basis if desired concurrent with **provision for expedited modifications of exclusivity periods.**
- **Gives aggregator licensee greater flexibility to pursue sublicensees while preserving licensor agency ability to enforce commercialization milestones.**