

# PATENT LICENSING STRATEGIES:

## WHAT WE CAN LEARN FROM THE BIG COMPANIES

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# OVERVIEW

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- II. Case Studies of Large Corporations
- III. Conclusions & Comments

# I. Overview of Corporate Patent & Licensing Strategies

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- B. Secondary Technologies
- C. Third Party Technologies
- D. Litigation vs. Negotiation
- E. Patent Pools & Cross-Licensing
- F. AIA Considerations

# I. Overview of Corporate Patent & Licensing Strategies

## A. Core Technologies

- **Definition:** The technologies that are the main strengths or strategic advantages of a company or other entity. Core technologies are the result of the combination of pooled knowledge, technical capacities (i.e., research, development, manufacture) and technological assets (i.e., equipment, materials, intellectual property) that allow the company or entity to be competitive in the marketplace. The core technologies are part of the core competencies of a company that should allow a company to create and/or expand into new end markets, as well as provide a significant benefit to customers. **The core technologies should also be hard for competitors to replicate or obtain.**

# I. Overview of Corporate Patent & Licensing Strategies

## B. Secondary Technologies

- **Definition:** The technologies that are not the main strengths or advantages of a company or other entity, but which relate to and/or are sufficiently important to the core technologies. Secondary technologies are the result of the need for other knowledge, technical capacities and technological assets to support the core technologies that then allow the core technologies to be commercially viable and thereby competitive in the marketplace. The secondary technologies may allow a company to create and/or expand into new end markets separate and apart from those of the core technologies. The secondary technologies may be made available on the market even to competitors.

# I. Overview of Corporate Patent & Licensing Strategies

## B. Secondary Technologies

### - Example:

Core Technology: Structure, Operation and Manufacture of Communication Antenna Towers

Secondary Technology: Anti-corrosive Paint for the Communication Antenna Towers

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## C. Third Party Technologies

- **Definition:** The technologies that are obtained from third parties either through purchase or licensing of the equipment, materials, intellectual property, know-how or other underlying resources that embody the technology. These technologies may relate to the core technologies or the secondary technologies. Depending on how the third party technologies were obtained, they may already be available on the market to competitors.

# I. Overview of Corporate Patent & Licensing Strategies

## C. Third Party Technologies

### - Examples:

Core Technology: Network-based Software  
Search Engine Software

Secondary Technology: Operating System Software  
for Mobile Devices

Third Party Technology: Mobile Communication  
Hardware



# I. Overview of Corporate Patent & Licensing Strategies

## D. Litigation vs. Negotiation

### - Market Competition:

- (a) Parties initially begin on relatively equal terms;
- (b) No immediate pressure on either party to concede, both parties will be posturing themselves in the market in order to gain an advantage based on business model and marketing strategy used;
- (c) The amount of resources required to support the business model is only limited by the resources available and the revenues that can be reinvested into the business;

# I. Overview of Corporate Patent & Licensing Strategies

## D. Litigation vs. Negotiation

### - Market Competition:

(d) The final result will become more apparent as time progresses;

(e) Possible reward if successful

Example: Profit and investment

Market share and power

(f) Possible consequences if unsuccessful

Example: Bankruptcy

Debt

# I. Overview of Corporate Patent & Licensing Strategies

## D. Litigation vs. Negotiation

### - Litigation:

- (a) Immediately threatens the opposing party into a defensive stance;
- (b) Depending on the court or forum chosen, puts pressure on one or both parties to either respond or concede within a limited amount of time;
- (c) Potentially ties up a large amount of resources (i.e., money, employee time, company equipment) for a prolonged or indefinite period away from the normal business operation;

# I. Overview of Corporate Patent & Licensing Strategies

## D. Litigation vs. Negotiation

### - Litigation:

(d) Unpredictable result;

(e) Possible reward if successful

Example: Monetary damages

Import Exclusion Order (ITC cases only)

(f) Possible consequences if unsuccessful

Example: Invalidation of Intellectual Property

Large Non-recoverable expenditure of resources

# I. Overview of Corporate Patent & Licensing Strategies

## D. Litigation vs. Negotiation

### - Negotiation :

- (a) Parties initially begin on relatively equal terms;
- (b) No immediate pressure on either party to concede, both parties will be posturing themselves as negotiations progress in order to gain an advantage;
- (c) The amount of resources required to support the negotiations will likely be more limited, but the total time of the negotiation may also be long;

# I. Overview of Corporate Patent & Licensing Strategies

## D. Litigation vs. Negotiation

### - Negotiation :

(d) The final result will become more apparent as time progresses;

(e) Possible reward if successful

Example: Monetary payment

Cross-licensing

(f) Possible consequences if unsuccessful

Example: Litigation

# I. Overview of Corporate Patent & Licensing Strategies

## E. Patent Pools & Cross-Licensing

### Patent Pools:

**-Definition:** A consortium of at least two companies agreeing to cross-license patents relating to a particular technology. The creation of a patent pool can save patentees and licensees time and money, and, in case of blocking patents, it may also be the only reasonable method for making the invention available to the public.

# I. Overview of Corporate Patent & Licensing Strategies

## E. Patent Pools & Cross-Licensing

### Cross-Licensing:

**-Definition:** When two or more parties enter into an agreement granting a license to each other for the exploitation of the subject-matter claimed in one or more of the patents each owns. Usually, this type of agreement happens between two parties in order to avoid litigation or to settle an infringement dispute. Very often, the patents that each party owns covers different essential aspects of a given commercial product. Thus by cross licensing, each party maintains their freedom to bring the commercial product to market. The term "cross licensing" implies that neither party pays monetary royalties to the other party.



# I. Overview of Corporate Patent & Licensing Strategies

## E. Patent Pools & Cross-Licensing

### Standard-Setting Organizations:

**-Definition:** They are the industry groups that set common standards for a particular industry in order to ensure compatibility and interoperability of devices manufactured by different companies. commonly have rules that govern the ownership of patent rights that apply to the standards they adopt. One of the most common rules is that a patent that applies to the standard must be adopted on "reasonable and non-discriminatory terms" (RAND) or on "fair, reasonable, and non-discriminatory terms" (FRAND).

# I. Overview of Corporate Patent & Licensing Strategies

## E. Patent Pools & Cross-Licensing

### Standard-Setting Organizations:

Standard-setting organizations include a RAND or FRAND obligation in their bylaws as a means of enhancing the pro-competitive character of their industry. They are intended to prevent members from engaging in licensing abuse based on the monopolistic advantage generated as a result of having their intellectual property rights (IPR) included in the industry standards. Once an organization is offering a FRAND license they are required to offer that license to anyone, not necessarily members of the group.

# I. Overview of Corporate Patent & Licensing Strategies

## F. AIA Considerations

- Under the AIA, parties can litigate over the scope of the claims in a pending application. In addition, the parties in such disputes can settle with the approval of the PTAB if accomplished prior to a final decision
- Possible scenarios for negotiating settlement include agreements to:
  - Limit scope of claims in specific applications
  - Prosecute only certain claims in an application
  - Obtain only certain claims in one party's pending application and allow the second party to get other claims in another pending application
  - Compensation for prosecuting or not prosecuting certain claims
  - License or purchase if certain claim scope is achieved

## II. Case Studies of Large Corporations

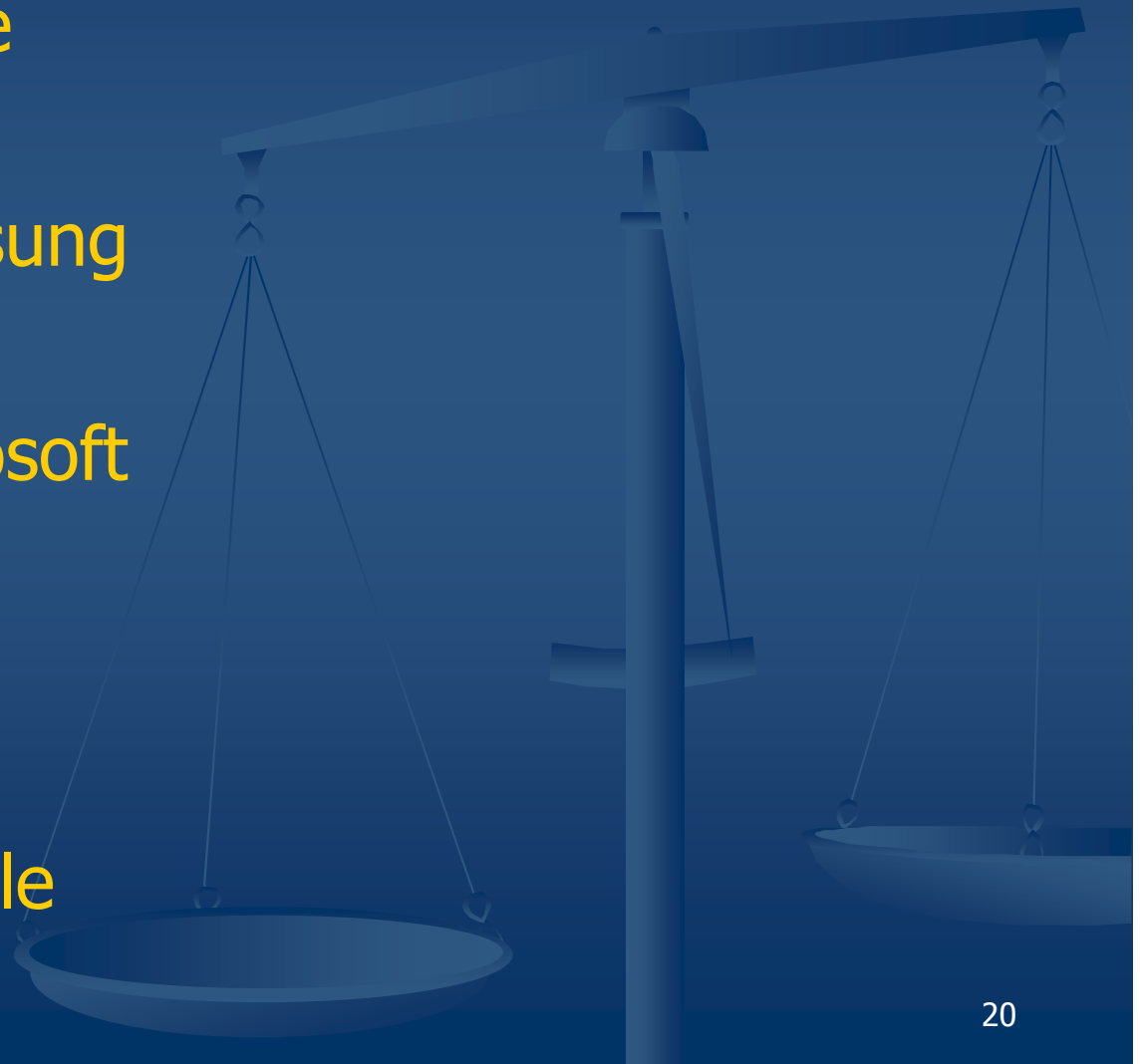
A. Apple

B. Samsung

C. Microsoft

D. IBM

E. Google



## II. Case Studies of Large Corporations

### A. Apple

- Apple Inc., formerly Apple Computer, Inc., is an American multinational corporation headquartered in Cupertino, California that designs, develops, and sells consumer electronics, computer software and personal computers.
- Apple is the world's second-largest information technology company by revenue after Samsung Electronics, and the world's third-largest mobile phone maker after Samsung and Nokia.
- It is the second-largest publicly traded corporation in the world by market capitalization, with an estimated value of US\$414 billion as of January 2013.

## II. Case Studies of Large Corporations

### A. Apple

- Apple is known for and promotes itself as actively and aggressively enforcing its intellectual property interests
- Apple treats all its intellectual property as a business asset, engaging in litigation as one method among many to police its assets and to respond to claims by others against it.
- Apple has a broad portfolio of intellectual property including copyright interests in multiple products and processes, and owns and licenses patents of various types.

## II. Case Studies of Large Corporations

### A. Apple

- While Apple professes it generally does not license its patent portfolio, it does work with third parties having an interest in product interoperability.
- Apple manufactures and sells products that run on only its proprietary mobile OS.

## II. Case Studies of Large Corporations

### A. Apple

#### COMMENTARY:

- Apple relies on its core technologies developed in-house as well as those purchased or licensed from third parties
- Apple only has secondary technologies that support its core technologies (EXAMPLE: iTunes)
- Apple does not rely on nor depend on licensing its technologies to third parties for revenue
- Apple will regularly assert its intellectual property portfolio through litigation in order to protect its market share



## II. Case Studies of Large Corporations

### B. Samsung

- Samsung Group is a South Korean multinational conglomerate company headquartered in Samsung Town, Seoul.
- Notable Samsung industrial subsidiaries include Samsung Electronics (in 2012 the world's largest information technology company), Samsung Heavy Industries (in 2010 the world's second-largest shipbuilder), and Samsung Engineering and Samsung C&T (respectively the world's 35th- and 72nd-largest construction companies).
- Samsung's affiliate companies produce around a fifth of South Korea's total exports.

## II. Case Studies of Large Corporations

### B. Samsung

- Samsung as a component manufacturer and major patent holder has committed to licensing its standards essential patents to other industry participants through their participation in standard-setting organizations (SSOs).
- Samsung has a large number of joint ventures in a wide variety of industries and technologies not only between Samsung Group entities, but also with third parties including Quintiles, BP, Corning, Sumitomo Chemical, Thales, Total S.A., Bosch GmbH, Sermatech, Toray Industries, and Toshiba.

## II. Case Studies of Large Corporations

### B. Samsung

- Samsung is a partial owner in a variety of other businesses including Atlantico Sul, DGB Financial, Doosan Engine, Rambus, Renault, Seagate, and Taylor Energy.

## II. Case Studies of Large Corporations

### B. Samsung

#### COMMENTARY:

- Samsung has a large and varied portfolio of core technologies developed in-house and through joint ventures, as well as those purchased or licensed from third parties
- Samsung also has a large portfolio of secondary technologies that support or are independent of its core technologies
- Samsung appears to license its technologies to third parties not just for revenue, but also to advance its interests in other technologies and industries

## II. Case Studies of Large Corporations

### B. Samsung

#### COMMENTARY:

- Samsung has the resources to regularly assert its intellectual property portfolio through negotiation and litigation in order to protect and expand its market share
- Because of its strong presence in a wide variety of industries, Samsung has the power to influence the market as those industries relate to one another

## II. Case Studies of Large Corporations

### C. Microsoft

- Microsoft Corporation is an American multinational software corporation headquartered in Redmond, Washington that develops, manufactures, licenses, and supports a wide range of products and services related to computing. Microsoft is the world's largest software maker measured by revenues. It is also one of the world's most valuable companies.
- As of 2013, Microsoft is market dominant in both the PC operating system and office suite markets (the latter with Microsoft Office).

## II. Case Studies of Large Corporations

### C. Microsoft

- Microsoft produces a wide range of software for desktops and servers, and is active in areas including internet search (with Bing), the video game industry (with the Xbox and Xbox 360 consoles), the digital services market (through MSN), and mobile phones (via the Windows Phone OS).
- In June 2012, Microsoft announced that it would be entering the PC vendor market for the first time, with the launch of the Microsoft Surface tablet computer.

## II. Case Studies of Large Corporations

### C. Microsoft

- Microsoft licenses its proprietary mobile OSs, (Windows Phone and Windows Mobile), to non-affiliated wireless handset original equipment manufacturers (OEMs).
- In a series of patent infringement lawsuits, Microsoft has asserted its patent portfolio against and successfully licensed wireless handset OEMs that have adopted the Android OS.



## II. Case Studies of Large Corporations

### C. Microsoft

#### COMMENTARY:

- Microsoft has a substantial portfolio of core technologies developed in-house as well as those purchased or licensed from third parties
- Microsoft does not appear to have an extensive portfolio of secondary technologies that support its core technologies
- Because of the recent “mobile phone wars”, Microsoft has derived substantial revenue from asserting its patent portfolio against Android-based OEMs and then licensing its technologies to those third parties

## II. Case Studies of Large Corporations

### D. IBM

- International Business Machines Corporation, or IBM, is an American multinational technology and consulting corporation, with headquarters in Armonk, New York, United States. IBM manufactures and markets computer hardware and software, and offers infrastructure, hosting and consulting services in areas ranging from mainframe computers to nanotechnology.
- In 2012, *Fortune* ranked IBM the #2 largest U.S. firm in terms of number of employees (433,362), the #4 largest in terms of market capitalization, the #9 most profitable, and the #19 largest firm in terms of revenue. Globally, the company was ranked the #31 largest in terms of revenue by *Forbes* for 2011.

## II. Case Studies of Large Corporations

### D. IBM

- IBM has 12 research laboratories worldwide and, as of 2013, has held the record for most patents generated by a company for 20 consecutive years.
- IBM employees have received five Nobel Prizes, six Turing Awards, ten National Medals of Technology, and five National Medals of Science.

## II. Case Studies of Large Corporations

### D. IBM

*"IBM spends nearly \$6 billion annually on research and development and has now spent a generation as the top patenting company in the world."*

*"IBM is committed to getting more patents than anyone else by a significant order of magnitude, and they are committed to spending more on research and development."*

## II. Case Studies of Large Corporations

### D. IBM

*"The patenting practices of today's old-line computer firms—such as IBM, Unisys and NCR—were established in the last quarter of the 19th century. Patents were as crucial to starting a technology-based business as finance and manufacture. When the business was established, patents protected R&D investments against appropriation by free-riders and enabled innovations to be traded with competitors. ... Patenting was an instrumental part of the innovation process, rewarding innovators for their investments while promoting competition."*

Martin Campbell-Kelly

Not All Bad: An Historical Perspective on Software Patents

2005

## II. Case Studies of Large Corporations

### D. IBM

*"At the very least, IBM's performance dramatizes the business need for a strategic—not tactical—approach to technology licensing. They have learned how to use licensing as a strong positioning factor in global markets."*

Louis Galambos

Professor of economic and business history, Johns Hopkins University

"IBM's Patent/Licensing Connection," IndustryWeek 2003

## II. Case Studies of Large Corporations

### D. IBM

*"IBM is a licensing juggernaut. Licensing of the IBM patent portfolio is routinely reported as being in excess of \$1 billion annually. So while there will be some who will quickly point out that quantity does not equate with quality, one thing is clear: IBM is extremely effective at maximizing the value of its own patent portfolio."*

Gene Quinn

IPWatchdog.com 2012

## II. Case Studies of Large Corporations

### D. IBM

#### COMMENTARY:

- IBM has and continues to build a massive portfolio of core and secondary technologies developed primarily in-house
- One of IBM's key business models is a heavy investment in research and development in conjunction with aggressive licensing of its technologies in a wide variety of fields in order to generate revenue



## II. Case Studies of Large Corporations

### E. Google

- Google Inc. is an American multinational corporation specializing in Internet-related services and products. These include search, cloud computing, software and online advertising technologies. Most of its profits derive from AdWords.
- Rapid growth since incorporation has triggered a chain of products, acquisitions, and partnerships beyond Google's core search engine. It offers online productivity software including email, an office suite, and social networking.

## II. Case Studies of Large Corporations

### E. Google

- Desktop products include applications for web browsing, organizing and editing photos, and instant messaging. The company leads the development of the Android mobile operating system, and of the browser-only Google Chrome OS for a specialized type of netbook known as a Chromebook.
- Google has moved increasingly into communications hardware: it partners major electronics manufacturers in production of its high-end Nexus series of devices, and acquired Motorola Mobility in May 2012.

## II. Case Studies of Large Corporations

### E. Google

- Google distributes Android free to OEMs. Typically Google collaborates with a hardware manufacturer to produce a 'flagship' device featuring a new version of Android, then makes the source code available after that device has been released.
- Google has publicly expressed its frustration for the current patent landscape in the United States, accusing Apple, Oracle and Microsoft of trying to take down Android through patent litigation, rather than innovating and competing with better products and services.

## II. Case Studies of Large Corporations

### E. Google

- In 2011–12, Google purchased Motorola Mobility for US\$12.5 billion. Motorola Mobility held more than 17,000 patents. In December 2011 Google bought over a thousand patents from IBM.
- Google acquired Motorola Mobility in a strategic move to strengthen Google's patent portfolio. The company's Android operating system has been under fire in its ongoing, industry-wide patent battle against Apple and Microsoft. The acquisition was made in part to help Google protect itself in its ongoing patent disputes with Apple and Microsoft and to allow it to continue to freely offer Android.

## II. Case Studies of Large Corporations

### E. Google

#### COMMENTARY:

- Google appears to have a substantial portfolio of core technologies developed in-house in terms of software and hardware
- Google's patent portfolio is relatively new (oldest issued patent filed 2001; oldest published application 2002)
- Google has only recently acquired a large patent portfolio by purchasing from third parties, and only as a defensive measure in the ongoing "mobile phone wars"

## II. Case Studies of Large Corporations

### E. Google

#### COMMENTARY:

- Google's business model does not rely on deriving revenue from its patent portfolio
- Google's protecting and enforcing its intellectual property rights in its technologies does not appear to be a high priority except for defensive purposes

# III. Conclusions & Comments

- Patent licensing strategies among large companies vary widely
- Those strategies are based on the overall business model of the company
- In the case of **Samsung** and **IBM**, a heavy investment in research, development and patent portfolio building in a wide variety of technologies demands aggressive licensing and/or aggressive commercializing into products in order to derive revenue from that investment

### III. Conclusions & Comments

- In the case of **Apple** or **Microsoft**, both companies have portfolios based mainly on their core technologies, which they then assert primarily to defend and/or expand market share
- In the case of **Google**, building and protecting intellectual property is not a priority, and is only done as a defensive measure; revenue is primarily earned through other business models



# PATENT LICENSING STRATEGIES:

## WHAT WE CAN LEARN FROM THE BIG COMPANIES

Any questions?

Thank you!

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