

Licensing out: a multinational perspective

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Philips IP&S

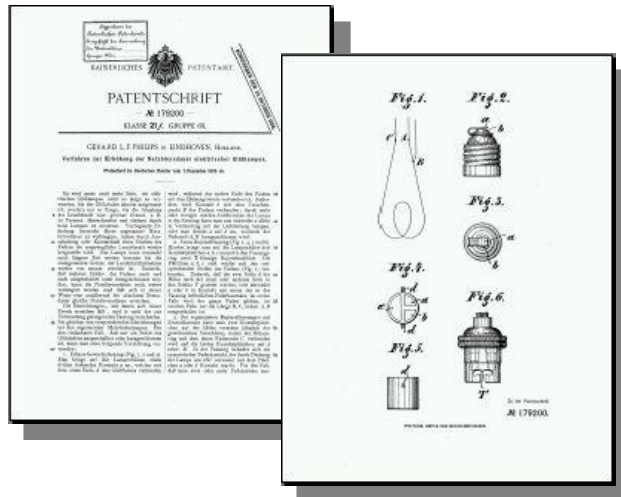
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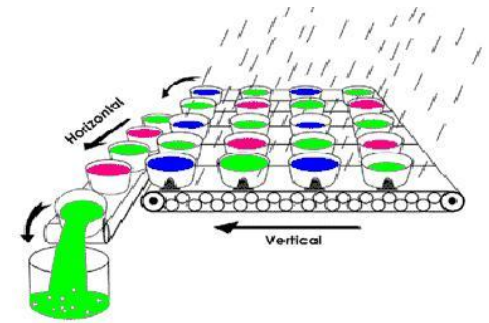
Philips origins

- Founded in 1891 by Anton and Gerard Philips



- First Philips patent granted on 29 October 1906
- Method of increasing the lifetime of electrical incandescent lamps, in which after the brightness has decreased, one or more parts of the filament are shorted so as to restore the original brightness.

A long history of innovation



Medical X-ray tube	1918
The neon tube	1922
Sodium street lamps	1931
Audio cassette tape	1963
VCR	1971
NiMH batteries	1976
Audio CD	1983
GSM speech (de-)coder	1985
CD-R, CD-RW	1986
Natural Motion	1992
DVD disc	1996
(H)DTV	1998
D-VHS	1999
Wearable electronics	1999
Flexible display	2001
Blu-ray disc	2002
Ambilight TV	2003
Sonicare Spring System	2005
Time of flight PET	2007



Philips today

- Diversified technology company
- Main business areas:
 - Healthcare
 - Imaging systems, home healthcare, patient care
 - Consumer Lifestyle
 - Personal care, domestic appliances, health & wellness
 - Lighting
 - Light sources, consumer luminaires, professional and automotive
- €23.3 billion sales in 2013, with around 117,000 employees
- €1.7 billion annual investment in R&D



Philips Intellectual Property & Standards

- Manages one of the **largest** and **strongest** IP portfolios in the world
- 400 people, 15 offices, 9 countries



Philips is **number 3 patent applicant** in the world for patents filed at the EPO in 2013



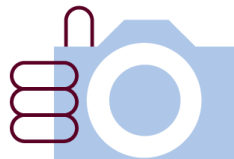
Philips is **number 1** applicant in the categories '**medical technology**' and '**instrument measurement**' at the EPO in 2013



Patent applications filed by Philips at the EPO in 2013



64,000
patent rights



93,000
design rights



domain names



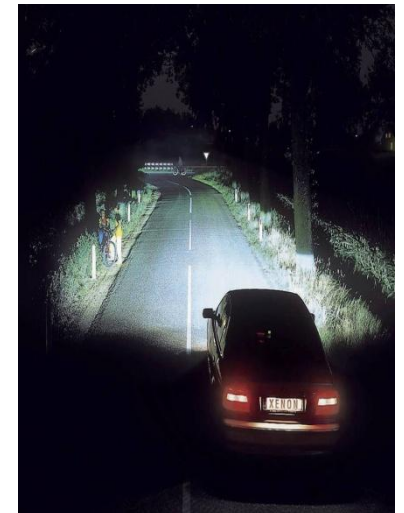
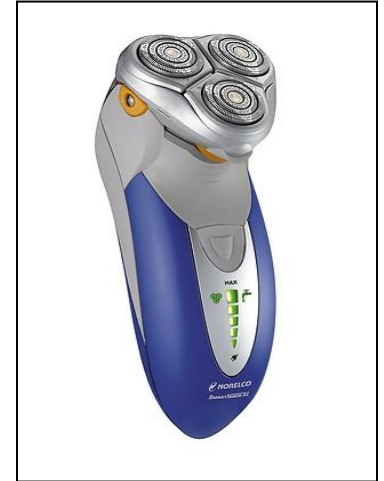
46,000
trademarks

How to use IP to get return on R&D investment

- Exclusive use
- Cross licensing
- Asset value
- Licensing

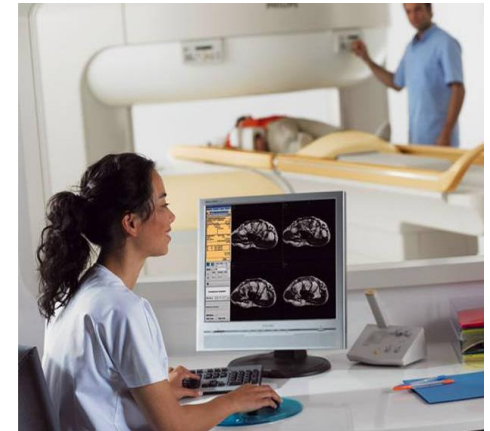
Philips IP: Exclusive use

- IP is a means to create an exclusive market position for unique products
- IP protects unique features of product:
 - Patents
 - Trademarks
 - Designs
- Value is created through extra margins on products / services
- E.g.: shavers, lighting products



Philips IP: Cross Licensing

- IP used to obtain access to third party technology
- Cross-licensing of patents: creating commercial freedom
- Value is created through cheaper products (no licence fees to competitors, avoiding expensive litigation)
- Often used in markets with limited number of major competitors



Philips IP : Asset Value

- IP used as capital for trading
- Value is created through advantages for business, e.g. partnerships, shares in JVs, access to new technology
- Often used in areas where companies complement each other or in M&A transactions



Philips IP: Licensing

- IP is used as a product
- Consumers get quicker access to new products
- Value through royalty payments under licence agreements
- Used in industries where many companies operate and set standards (e.g. electronics)



Licensing process

- Identification
- Notification
- Technical discussions
- Commercial discussions
- Agreement
- Maintenance

Licensing process: identification

- Deciding nature of potential licence. Examples:
 - Standard (e.g. UMTS, audio coding, ...)
 - Product (e.g. mobile phone, TV, ...)
 - Company (especially for defensive or cross licence)
- Deciding patents to include in potential licence.
 - Portfolio reviews
 - Reverse engineering
 - Generating claim charts (main tool for later discussions)
- Deciding companies to approach.
 - Based on market size
 - Based on existing relationships
 - Based on geographic scope of relevant sales and of relevant patents



Licensing process: notification



- Start of process with target company:
 - Who to contact?
 - Be clear on what is asserted (identify patents and products).
 - Give relevant information on right to assert (ownership etc).
 - Set expectations for process and timescales.
- Important to get correct:
 - Affects subsequent behaviour of target company.
 - Consistency between letters to different companies can be important in litigation.
 - May start the right to royalties or damages.

Licensing process: technical discussions



- The heart of most licensing negotiations
- Not always required, particularly with pool licensing or mature programmes
- Presentation of claim charts to target company
- Discussions on infringement theory and evidence
- Discussions on validity, based on prior art found by target company
- Many similarities to arguing cases before patent office – requires good technical command of the subject matter, knowledge of the patents and ability to react quickly on the spot.
- Agreement on validity and infringement is (almost) never reached
- Process can take significant time and needs to be well resourced
- Final aim is for both sides to understand the strengths and weaknesses of the assertion, to inform the commercial discussion.

Licensing process: commercial discussions



- Commercial discussions can occur after or in parallel with technical discussions
- Licensor usually makes opening offer:
 - Lump sum or running royalty?
 - How is royalty determined? % of selling price, fixed amount per unit, ...
 - Payment terms
 - Reporting schedule
- Alternating offers from each side
- Unless initial positions are very close, this can continue over several meetings, as each offer needs careful analysis and management approval required for significant changes in offers.

Licensing process: litigation



- If commercial settlement cannot be reached, essentially two choices:
 - Drop the assertion
 - Enforce rights through litigation
- Major step – can completely change the relationship between companies
- Careful consideration needed for:
 - Venue
 - Patents
 - Timescales
- Important to keep communication lines open during litigation – multiple events create settlement opportunities:
 - Exchange of opening briefs
 - Claim construction rulings
 - Validity decisions
 - Court hearing
 - Judgement
- If no settlement by end, need to prepare for enforcement of judgement.

Licensing process: agreement



- Not glamorous, but important!
- Sets out the contractual relationship:
 - What products are licensed?
 - What patents are included in the licence?
 - What is the term?
 - Choice of law
 - Dispute resolution mechanisms
 - Payment terms
 - Reporting schedule
- Complexity varies widely, from standard agreement in mature programme to one-off agreements
- Time and effort to get this right should not be underestimated!

Licensing process: maintenance

- Ongoing responsibilities
- Reporting and payment
 - Obligations need careful monitoring
 - Invoicing and payment handling takes significant effort
- Auditing
 - Important element for most significant licensing programmes
 - Needs careful planning and execution
- Changes to commercial relationships:
 - Change of ownership
 - mergers and divestments
 - transfer of agreements



Digital Audio Broadcasting (DAB)



Digital Audio Broadcasting

- Development started in 1981.
- European research programme (Eureka-147) from 1987.
- Large number of participant companies.
- Basic development completed around 1995.

- Slow start to DAB: first receiver sales in UK in 1999.
- Strong UK sales from 2003.
- Other countries followed, including Denmark.
- DMB system developed in Korea, introduced 2005 and very successful.
- DAB⁺ system, with additional audio options, introduced 2009.

DAB Licensing – Overview

- IPR considered as integral part of Eureka-147 project.
- Patent pool formed by project members, set up before market growth.
- Patent pool administered by Philips.
- First licence signed in 1998.
- Complete transparency of terms and patents.
- Over 120 licensees, with very high coverage of sales.
- Last patents now expired.
- Challenges resulting from DMB in Korea and DAB⁺ in Australia.

Mobile Phone Standards

- Philips, together with several other companies, was active in research in 1980s (and later) which led to GSM system and extensions. Following on from this, remained active in development of successor UMTS and LTE systems.
- No joint licensing programmes were established for GSM, and none with real traction for UMTS or LTE.
- Philips obtained significant GSM, UMTS and LTE patent portfolios.
- Extensively licensed.
- Litigation required several times to enforce programme, in view of value and complexity.