

PatentBooks: a civilised revolution in patent licensing

Large quantities of patents related to a specific product or service can now be licensed in a single transaction by using a PatentBook – leading to more efficient licensing and a fairer distribution of the revenue generated

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Today, the world's most efficient patent licensing is through a royalty-based subscription to a large, inclusive list of patents that may be used by a product, with the income divided among the published patents' owners based on the quality of their patents. This is PatentBook licensing.

With current telecommunications and logistics, large quantities of patents related to a specific product or service can now be licensed in a single-price royalty-based transaction via a PatentBook. A PatentBook administrator invites owners of patents that may be related to a product to publish their patents in a PatentBook, and sells non-exclusive licences to the PatentBook patents via subscription to unlicensed manufacturers of that product. The licensing revenue generated by a PatentBook is then distributed according to the patent quality, which is ascertained by technical, economic and legal professionals trained to validate the self-evaluations of the patents according to internationally standardised PatentBook patent evaluation criteria.

Technical, economic and legal subject-matter expert review of a patent is required to obtain a valid, accurate evaluation of a patent, especially when significant money is involved. The key to accurate and repeatable reviews is a standard set of evaluation criteria.

The patent quality metrics that determine

the income distribution for PatentBooks include specific criteria in three areas critical to the value of a patent:

- Technical.
- Legal.
- Commercial/market.

The individual criteria are familiar factors in patent licensing and include observability, ease of investigation, availability of alternatives, scope of claims, litigation history, value contribution, market size and direction.

The evaluation criteria for PatentBooks have been perfected over two decades by evaluating more than 1 million international patents. The PatentBook patent evaluation criteria and the evaluations of the most valuable PatentBook patents themselves are transparent and publicly available via the PatentBook website.

Patent owners are encouraged to self-evaluate their patents using these criteria and to have their self-evaluations validated by a PatentBook administrator. Patents that have been evaluated and validated may be placed into one of the top two tiers of patent quality, thus qualifying for the highest possible PatentBook revenue distribution available at that time.

Since the highest-quality evaluated patents contained in a PatentBook receive the highest percentage royalty income distribution, patent owners are always invited to evaluate the quality of the patents that they publish in a PatentBook. Tier 1 patents, which consist of the top 2% of the quality patents published in a PatentBook, proportionally share 50% of the distributed PatentBook licensing income. Tier 2 patents, which include the next highest 13% of the quality patents published in the PatentBook, proportionally share the next 35%

of the distributed PatentBook licensing income. Tier 3 patents, which include the remaining 85% of the patents published in the PatentBook and are most likely unrated, proportionally share the remaining 15% of the distributed PatentBook licensing income.

Interest in PatentBooks comes from many different groups for a variety of reasons:

- Inventors and other patent owners which own PatentBook patents wish to be efficiently and effectively compensated for the use of their patented technologies. Current patent monetisation methodologies often involve selling their patents, bilateral licensing negotiations or patent litigation, all of which are costly.
- Product manufacturers that build PatentBook products wish to honour uniformly the owners of patents being used in their products by efficiently paying for their use of the PatentBook patents. Product manufacturers universally abhor patent litigation as a means of compensating patent owners for the use of their patents.
- Retail chains that sell PatentBook products wish to ensure that they are transacting business on legitimately licensed products. The risk of disruption to their supply chain through an injunction on product shipments due to patent litigation is both costly and disruptive to their businesses.
- International courts want transparent impartial references for valuing patent transactions. Judges often compliment juries on their ability to decide guilt and innocence, but are concerned about ability to ascertain damages accurately.
- Governments wish to stimulate economic activity for their countries and their neighbours by paying and receiving fair compensation for the use of patents as a means of efficient technology transfer. National patent offices have been seeking ways to improve the quality of patents issued for many years.
- Patent industry professionals benefit from the new opportunities that PatentBooks create in the areas of patent evaluation and commercialisation of nascent technologies.

Inventor and patent owner benefits

Patent owners are often intimidated by the

time and expense required to monetise their patents through conventional means. By publishing their patents to a PatentBook, inventors and patent owners benefit immediately in a variety of ways:

- It is simple to publish patents.
- It is free to publish non-evaluated patents.
- Licensing income is received easily based on the quality of evaluated patents.
- Even non-evaluated PatentBook patents earn a share of 15% of the distributed income.

Unrated patents may be combined with other patents and subscribed to by both large manufacturers of PatentBook products and other new companies in developing countries. Over time, some of these non-evaluated patents may be adopted by manufacturers and may become valuable to consumers. Should this happen, and a patent owner recognise its patent being widely used by commercially successful products, it may subsequently re-evaluate its own patent using the PatentBook evaluation criteria and choose to have its PatentBook patent re-validated by the PatentBook administrator for potential placement in a higher category to earn a higher distribution of income.

Usually, publishing patents to a PatentBook complements, and does not fully replace, other patent licensing approaches employed by a patent owner. Patents listed within a PatentBook may always be licensed separately to specific companies independent of the PatentBook. Patents within a PatentBook may also be published in multiple PatentBooks simultaneously or be available through patent pools, to licensees.

Maintaining the pride, rights and privileges associated with patent ownership is a key benefit for patent owners publishing to a PatentBook, since the inventor or patent owner always maintains full ownership of its patents. Other patent monetisation models require the patent owner either to sell its patents to a third party or to incur the high costs and risks associated with patent litigation.

There is also no charge to a patent owner to cease publishing its patents in a PatentBook. The only residual obligation of the patent owner is to honour the patent licences granted

to product manufacturers that subscribed to the PatentBook while its patents were published in the PatentBook.

Manufacturers open markets and reduce risk

PatentBook licences appeal to product manufacturers because the manufacturer obtains a licence to many thousands of patents that its product may or may not contain at the same time, for a competitive price and without litigation expense. The US marketplace has now been opened up to that manufacturer at a competitive and predictable price.

Other companies that do not subscribe to a PatentBook are still subject to patent enforcement actions and injunctions on product shipments, potentially risking significant supply chain disruptions and increased expenses.

Manufacturers subscribing to patents via PatentBook licensees see improvements in profits and predictability in their business, since their PatentBook subscription nearly eliminates the risk of destructive and expensive patent litigation as they enter new world markets. Since the cost of a PatentBook subscription is far less expensive than patent litigation, the manufacturer has significantly reduced the risk of patent litigation that could disrupt its business profits, management activities and product shipments.

Having already paid for the legitimate use of thousands of technologies via their PatentBook subscriptions, manufacturers may also now access a large list of fully licensed technologies that may be included in their products to help them to distinguish their products from competitive products. This product diversification opportunity helps both competition and consumer choice, and stimulates further innovation.

Retail stores prefer legitimate product sales

Retail chains that sell products containing technology found in PatentBooks are motivated and monitored to ensure that they sell fully licensed products. Properly licensed products help to promote innovation and stimulate worldwide economies, as well as reducing the business and financial risks inherent in selling

unlicensed products. The outcome of *MPEG-LA v WalMart* vividly illustrated the perils of selling unlicensed products for both retailers and manufacturers.

Other types of licensed intellectual property contained within products sold by retail stores (eg, branded sports team apparel and equipment, designer clothing and accessories and software) are monitored carefully for both legitimate licensing and potential counterfeiting and copying. PatentBook licensed products will be monitored similarly.

Courts desire valid commercial transaction references

Judges involved in US patent litigation have long bemoaned the fact that there are few, if any, reliable economic comparable transactions for patent litigation damage values. Using PatentBook transactions as a reference, a patent involved in litigation may be easily evaluated for its quality and how much that patent might have received were it listed in a PatentBook. This reference provides the court with a commercially valid comparable damages value.

The net effect of this new valuation reference is likely to be an overall reduction in the economic value and quantity of patent litigation that is currently clogging up the world's court systems.

Governments desire legitimate economic stimulus and improved patent quality

Governments are expected to stimulate their economies to help to improve the standard of living for their citizens. Since governments create patent systems, they respect the rights which they grant to inventors. Subscribing to a PatentBook is an easy and efficient way for a government to stimulate people's thinking and economic development legitimately by giving them valid access to a coherent package of patented technologies, thus reducing the risk for capital investment and economic development.

Governments are also interested in managing legitimate commerce. As such, governments are interested in access to the list of PatentBook subscribers. A country, or a substantial number of companies within a country, subscribing to a PatentBook may become a condition of US foreign aid. The list of

PatentBook subscribers also provides an easy reference for customs and border personnel to check on legitimate commercial transactions.

In recent decades, national patent offices have been crushed by the demand for more patents, an increase in the quantity of patent litigation and the proliferation of new patent monetisation businesses (eg, patent trolls). Many attempts – most recently, the October 2011 America Invents Act – have been made to remedy this situation by limiting the quantity of patents issued, improving the quality of patents and regulating transactions and litigation involving patents.

Arbitrary metrics, especially those created by governments as commercially disinterested parties in a patent transaction, seldom work. As patent owners further understand the commercial significance of their patents via PatentBooks, it is likely that fewer low-quality invention disclosures will be submitted to national patent offices, thus resulting in higher-quality issued patents.

Limitations of traditional patent licensing models

At present, IP licensing between patent owners and product manufacturers is done in two ways, both of which have been around for centuries: point-to-point or bilateral licensing between a patent owner and a prospective licensee; or through a patent pool, which offers product manufacturers single-price licences to a group of patents owned by many different people (such patents are deemed ‘essential’ to a specific international technology standard).

Bilateral patent licensing requires specific skilled negotiators and consumes significant time and money. Good patent licensing teams often consist of legal, technical and business personnel. A single successful transaction between a licensor and licensee often takes between 18 and 36 months to complete, since it requires many face-to-face meetings in locations all around the world. Should litigation be required to complete a licensing transaction, the time and expense to resolve the agreement both increase dramatically. Patent litigation averages US\$7 million in external expenses and three to five years a case if the matter goes to trial. These are just the direct costs; management distraction of all

parties to the litigation is a far greater, and largely undocumented, cost.

Patent pools improve the efficiency of point-to-point bilateral licensing transactions. They offer single-price licences to a group of patents deemed essential to a technical specification standard. Patent pools are not new, having been advocated by the US government in the early 20th century for aircraft and sewing machine technologies. Today, they exist for DVD, Blu-Ray, RFID, MPEG and 4G/LTE technologies. Because the specifications underpinning today’s patent pools were created by competitors, patents being considered for inclusion into a patent pool must be deemed essential to the specification by a patent pool administrator to avoid antitrust issues. Only those patents deemed essential to the specification are included in the patent pool. All other, non-essential patents are excluded from the pool. This essentiality requirement necessarily limits the quantity of patents listed in a patent pool. Most patent pools contain a few hundred patents, with only the largest containing around 1,000 patents. Owners of patents in the pool share pool royalties based on the quantity of patents that are included in the patent pool.

Limitations of current licensing models result from the following:

- Most technology areas and products are not covered by specifications.
- Only very large institutions have the resources required to launch point-to-point licensing businesses.
- Thousands of companies in developing countries produce large volumes of high-quality products that are sold in the United States and around the world. These products use intellectual property owned by others.
- Patent owners are rewarded based on the quantity of their patents in a patent pool, not the quality of the patents in the pool.

The LCD PatentBook

The largest-volume technology product exported from China today is LCD displays. Most LCD patent owners do not receive licensing income from Chinese LCD manufacturers. Therefore, the world’s first PatentBook focuses on LCD products,

offering single-price licences to the world's LCD manufacturers.

The LCD PatentBook contains patents on, among other things, display drivers, display materials, connectors, printed circuit boards, integrated circuits and user interface technologies. An LCD PatentBook subscription provides the freedom to use all PatentBook patents.

PatentBooks are technology and geography independent. Subsequent PatentBooks will be created for other high-technology, energy and healthcare products and services.

Conclusion

Everybody around the world seeks to improve their living conditions by learning from their neighbours. Current technologies allow people to learn about inventions from other countries, fulfilling the purpose of patent systems: to encourage progress in science and the arts. Now there is a commercial solution for everyone to use patented inventions and to receive compensation for their use.

PatentBooks offer easy ways for manufacturers to produce products legitimately, for retailers to sell licensed products and for inventors to be paid fairly for the use of inventions that commercially enable products. PatentBooks are an intelligent combination of known techniques that revolutionise patent licensing. **iam**

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Art Nutter founded TAEUS International Corporation in 1992 as the world's first engineering company dedicated exclusively to intellectual property. It assists clients with all aspects of patent ownership, including determining which patents are valuable, proving competitors' use of patents by forensic engineering analysis (reverse engineering), supporting clients with patent licensing negotiations, patent brokering, prior art research and expert witness services in IP litigation, and auditing licence agreements. Mr Nutter lectures and writes on IP management and has served as trustee, high-tech sector chair, international delegate and on many committees for the Licensing Executives Society (USA & Canada), Inc (LES). He also served as LES International communications chair. He holds a BSME from the University of Akron (Ohio) and an MBA from the University of Phoenix.