U.S./Canadian Licensing In 2007-08: Survey Results

By Louis P. Berneman, Iain Cockburn, Ajay Agrawal & Shankar Iyer

Initial Results of a Survey Conducted in Spring 2008 by The Licensing Foundation of LES (USA & Canada), on behalf of The Licensing Foundation.[1,2]

Introduction

This paper is the fifth report of the Annual Survey conducted by the LES Licensing Foundation. As in prior years, the survey was conducted by an online questionnaire of the membership of LES (USA & Canada). The data were obtained primarily in April/May 2008, and refer to the period 2007. Two related but distinct survey questionnaires were used, one for Technology Creators/Users (i.e. buyers or sellers, licensors or licensees), and one for Professional Service Providers (law firms and consultants).

The objective of this survey is, as in previous years, to provide an annual, synoptic perspective on events, and trends in "the business of licensing" that can assist licensing professionals in understanding and advancing the business environment in which they operate and to which they contribute. The survey also seeks to provide information about IP licensing which may be used by the public, academic researchers, government policy analysts, and others to grasp the issues and impacts of licensing business practices.[3]

Specific inquiry themes for this survey were: licensing and the courts—to assess the impact of recent court decisions on licensing; investigating underlying motivations in licensing—business development versus enforcement of rights; and, to determine the impact of patent trolls on licensing activity.

Summary of Survey Methodology

A Web-based survey was sent to the LES (USA & Canada) membership in April/May 2008. Separate questionnaires were developed and sent to Technology Creators/Users and Professional Service Providers, but not to specific industry sectors. We received 602 usable responses from Technology Creators/Users and 277 usable responses from Professional Service Providers. Strict anonymity was guaranteed and provided. As in all prior years, once responses were deemed authentic, they were matched to one of eight categories based on their industry sector and the reported size of their organization. We distinguished between large and small entities or companies, based on the number of employees (greater or less than 500) and four industry groups: Health, DICE (Digital Information Computers Electronics), Industrial, and University/Government.[4] Responses were then anonymized with no identifying information retained. Because responses were anonymized, we had no ability to link responses to other datasets or to do longitudinal studies of respondents. Discussion of the sample and survey design, including survey administration and response rate, is attached as Appendix A.

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Summary of Findings And Discussion

In this survey, we asked questions exploring three major themes:

1. The Licensing Foundation is a wholly-owned 501c3 subsidiary of LES (USA & Canada). Additional information on the Foundation is available at: *www.licensingfoundation.org.*

2. The Licensing Foundation during 2007 was managed by its Board comprised of Alan Baum, E.B (Ted) Cross, Ada Nielsen, Dwight Olson, Art Rose, and assisted by Ken Schoppmann of the LES (USA & Canada) office. The authors also wish to acknowledge the contribution of the LES Foundation past-president Richard Razgaitis.

3. Since LES (USA & Canada) membership predominately reflects technology licensing of patents, know how, trade secrets, and copyrighted software—and relatively under-represents licensing of trademarks and copyrighted content, for example—the licensing industry so characterized by these data is primarily about technology licensing.

4. The term "company" is used as a generic reference to an IP asset owning entity, which was primarily represented by corporate entities but includes representation from universities, research institutes, and government laboratories.

1. Licensing and the courts—impact of recent court decisions;

2. *Business development vs. enforcement of rights*; and

3.Impact of patent trolls.

As in previous years, we also queried respondents' profiles and asked about volume of licensing activity and context questions about respondents and their organizations. Of note, we found that 85 percent of Technology Creators/Users respondents are non-lawyers and 38 percent of respondents had less than five years of licensing experience. (See Tables 1 and 2.)

Table 1. What is Your Primary Background/ Training Outside the Licensing Field?

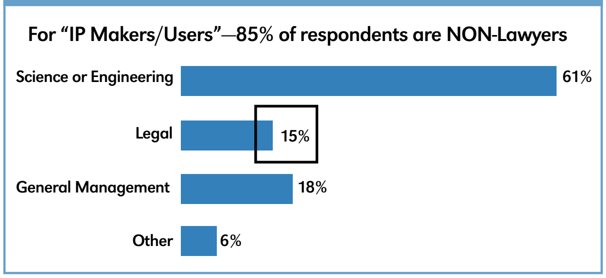
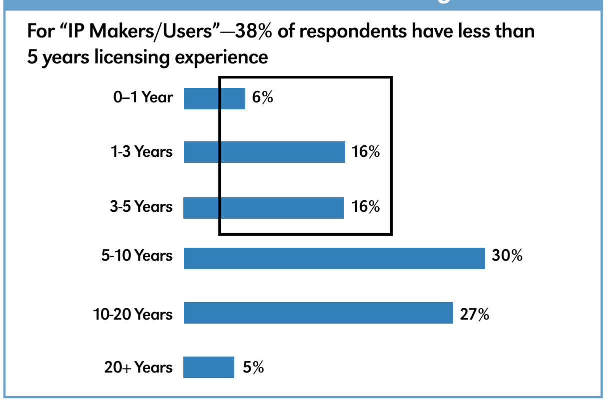


Table 2. How Many Years Have You (Personally) Been Involved in Licensing?



Licensing and the Courts—Impact of Recent Court Decisions

We asked respondents a series of questions related to recent significant court decisions that dealt with licensing disputes or have implications for the future treatment of license agreements. Specifically, we asked about respondents' level of ***awareness***, depth of ***knowledge, concern***, and the actual ***impact*** on their business of recent court rulings. Decisions in cases such as *Medimmune v. Genentech, Sandisk v. STMicroelectronics, Seagate, KSR International v. Teleflex, and eBay v. MercExchange*—(see Table 3) have generated commentary in the popular press and elsewhere, and have been widely interpreted as favoring licensees over licensors and patent holders. Yet despite the public hand wringing and debate, the survey data we collected from individuals actually involved in the management of intellectual property suggests that the hand wringing and pursuant interpretations are not necessarily mimicked by the survey respondents.

We first asked respondents whether or not they had thought at all about these recent court rulings. Surprisingly, at least for us, only 76 percent of Professional Service Providers and 67 percent of Technology Creators/Users replied in the affirmative. Though this may just be a debate of the "is the glass half full or half empty" variety, given the salience of these cases, the intensity of discussion in the press and at professional gatherings, and their potential to affect licensing practice, we are nonetheless startled that a quarter of responding Service Providers and a third of responding Technology Creators/Users had not thought about the impact of these recent court rulings.[5] Perhaps transaction-oriented professionals see changes in legal doctrine, even landmark court rulings, as irrelevant to their

Table 3. Recent Court Cases

- ***MedImmune v. Genentech***—Supreme Court rejected reasonable apprehension of suit test for declaratory judgment jurisdiction in allowing a licensee to challenge the validity, enforceability or non-infringement of a licensed patent without requiring a breach or termination of its license.
- ***Sandisk v. STMicroelectronics***—Federal Circuit broadened declaratory judgment jurisdiction to situations in which there is an assertion of patent rights and a responsive contention of the right to engage in the accused activity without a license.
- **In re *Seagate Technology, LLC***—Federal Circuit revised the standard for proving willful infringement by requiring clear and convincing evidence of objective recklessness on the part of the accused infringer instead of a mere failure to exercise due care to avoid patent infringement.
- ***KSR International v. Teleflex***—Supreme Court rejected strict application of teaching/suggestion/motivation (TSM) test for determining obviousness; perceived as raising the bar for sustaining the validity of patents.
- ***eBay v. MercExchange***—Supreme Court rejected general rule that a permanent injunction should follow a finding of patent infringement absent exceptional circumstances in favor of application of the traditional four-factor test: (1) irreparable injury; (2) inadequate remedy at law; (3) balancing of hardships of parties; and (4) the public interest.

5. Or at least were not willing to report having done so!

Table 4. Licensing and The Courts

Recent court rulings (e.g., *Medimmune v. Genentech, Sandick v. STMicroelectronics, Seagte, KSR International v. Teleflex, and eBay v. MercExchange*) appear to have swung the pendulum of licensor-licensee interests in favor of licensees. Have you **thought about the impact** of one or more of these rulings on...

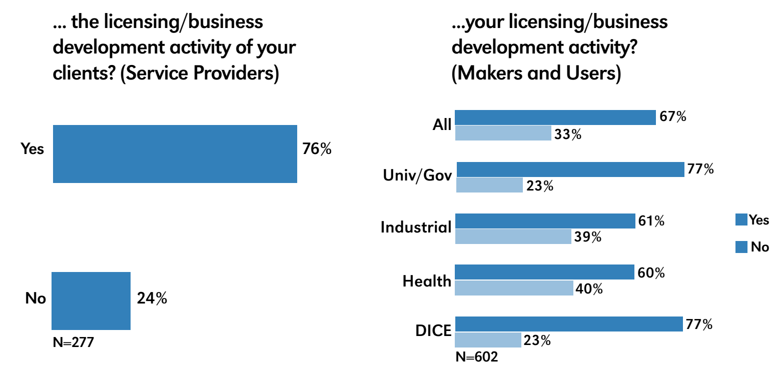
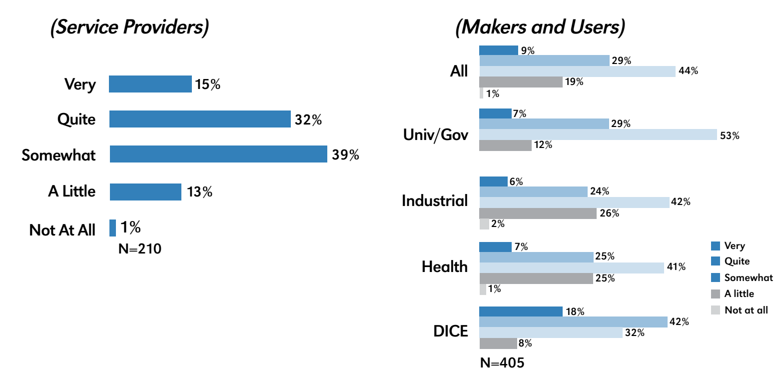


Table 5. Licensing and The Courts

Regarding recent court rulings such as those cited above that appear to have altered the balance between licensors and licensees:

How **knowledgeable** are you about these recent rulings?



daily business. Perhaps these results reflect personnel turnover in the licensing function: in past surveys we have found that about one third of Technology Creator/User respondents had less than 5 years of licensing experience. Perhaps this finding points to an opportunity for LES US/C to communicate such issues more effectively to its members.

Among respondents who were ***both aware and had thought about the impact*** of these recent court rulings, about one-half reported that they were very or quite ***knowledgeable*** about these rulings. Again, while licensing professionals focused on transactional matters may not have reached a definitive opinion about these recent court decisions, we were surprised they were not more knowledgeable. Are these court decisions simply irrelevant to people focused on transactions? Or, is it the case that we are seeing relatively slow diffusion of information out of legal circles into the community of practitioners. Interestingly, when we look at sectoral differences, among Technology Creators/Users, the DICE industry sector stood out with 60 percent of DICE respondents very or quite knowledgeable, while one-third to one-half of the other industry respondents were very or quite knowledgeable. Since the litigants in many of these cases were companies from the DICE sector, it is probably not too surprising that respondents from this sector were more familiar with the matters and decisions. Nonetheless, these rulings are likely to have implications beyond DICE, so these differences in knowledge across sectors point to relatively slow diffusion of information.

We then explored how ***concerned*** respondents were about the impact of these rulings on their business. In short, the answer was "not so much." Overall, about two-thirds of respondents were "somewhat" or "slightly" concerned. We suspect that these relatively sanguine responses reflect confidence that any negative implications of, for example, the Medimmune decision can be handled transactionally, and a sense that some of the other decisions, for example, KSR, most significantly impacts legal practice rather than business dealmaking. (See Table 6.)

How concerned are you about these recent court decisions, and what is your sense of respondents' level of concern? There is, however, a significant correlation between respondents' knowledge and their degree of concern. Perhaps low levels of concern, therefore, reflect limited knowledge.

In terms of ***actual impact***, both Professional Service Providers and Technology Creators/Users largely viewed recent court rulings as having a neutral or negative impact on their business, with over half of Professional Service Providers and nearly two-thirds of Technology Users/Creators reporting a neutral impact, and one-quarter and one-fifth reporting a moderately negative impact respectively. Very few respondents viewed the impact as positive, even those

Table 6. Licensing and The Courts

Regarding recent court rulings such as those cited above that appear to have altered the balance between licensors and licensees:

How **concerned** are you about the impact of these rulings on your business?

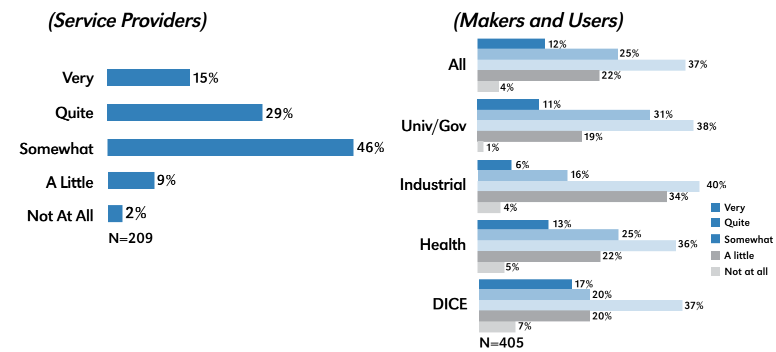


Table 7. Licensing and The Courts

What has been the **actual impact** of these rulings on...

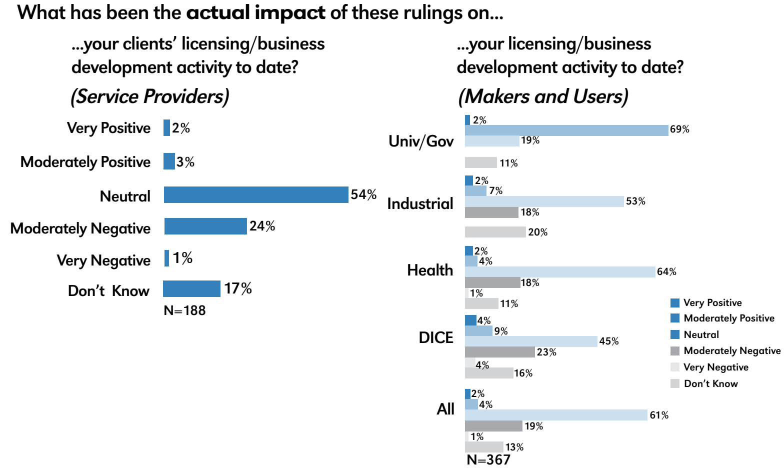


Table 8. Georgia Pacific Factors

Factor	Respondents	%
The rates paid by the prospective licensee for the use of other IP or IP comparable to the IP that you are/your client is licensing	Makers and Users	55%
	Service Providers	65%
Fees and royalty rates paid by existing/other licensees, if any, for the IP you are/your client is licensing	Makers and Users	65%
	Service Providers	72%
The commercial relationship between the licensor and licensee, such as whether these organizations are competitors in the same territory in the same line of business	Makers and Users	48%
	Service Providers	65%
The contribution of the IP you are/your client is licensing towards promoting sales of and generating revenues and profits from other products of the other party	Makers and Users	56%
	Service Providers	66%

Reflects respondents selecting "Very Important" or "Quite Important"

whose organizations were engaged in substantially more in-licensing than out-licensing. Perhaps, more time is needed for diffusion of information or for the impact of these recent court rulings to sink in. Perhaps, licensing professionals need more time to adjust. But, perhaps, despite the hand wringing and public debate, the pendulum has not swung too far in favor of licensees.

We also asked respondents about business factors they consider in preparing for licensing negotiations, drawing upon the so-called "*Georgia-Pacific* factors" frequently offered to courts in the analysis of reasonable royalties in patent damages. Specific factors that we asked questions about included:

- Rates paid by the prospective licensee for the use of other or comparable IP;
- Fees and royalties paid by existing/other licensees;
- The commercial relationship between the parties (i.e. direct competitors or other); and
- Contribution of the IP towards promoting sales and generating revenues/profits from other products.[6]

Majorities of Professional Service Providers and Technology Creators/Users indicated that they considered these factors "very important" or "quite important" in preparing for negotiations in the real world. Under the Georgia-Pacific standard, courts consider the likely outcome of a hypothetical negotiation between the patentee and the alleged infringer, and responses to this survey (particularly from Technology Creators/Users) offer reassurance that some of the considerations embodied in the Georgia-Pacific factors reflect actual licensing practice.

6. *Georgia-Pacific Corporation v. United States Plywood Corporation*, 318FSupp1116, 6USPQ 235 (SD NY 1970).

Table 9. Technology Makers and Users
Business Development vs. Enforcement of Rights

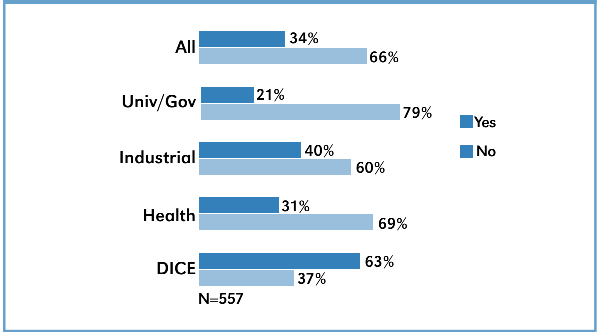
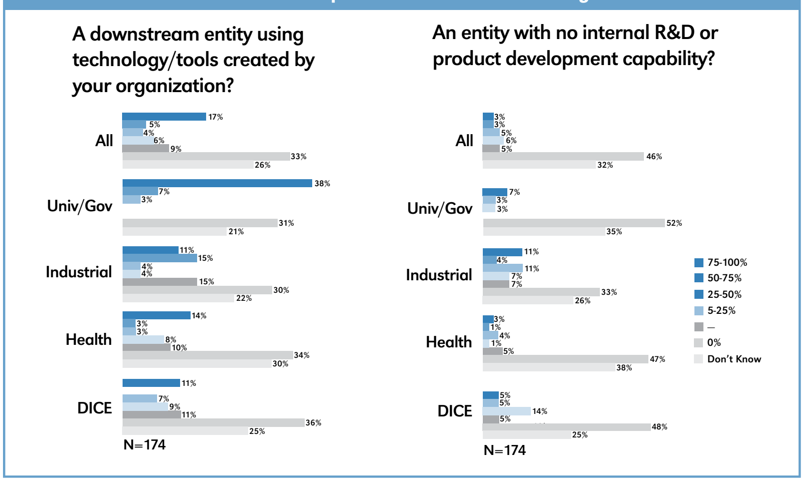


Table 10. Technology Makers and Users
Business Development vs. Enforcement of Rights



Business Development v. Enforcement of Rights

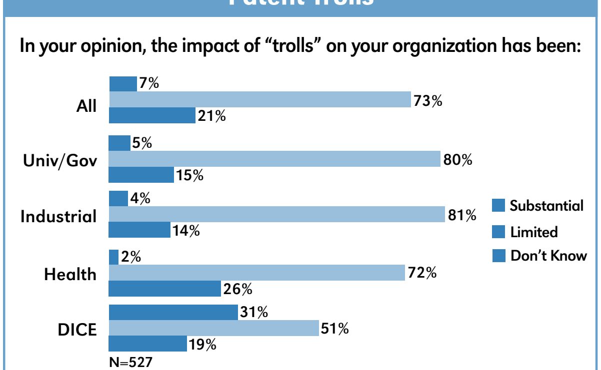
About one-third of respondents indicated that their respective organizations have entered into license agreements to settle or avoid litigation or to enforce their IP rights (i.e., divide the pie) as opposed to enabling a business development opportunity (i.e., increase the size of the pie). Differences across industry sectors are quite sharp. While we were not surprised with the finding that 63 percent of DICE respondents had entered into license agreements to settle or avoid litigation or to enforce their IP rights, we were surprised that 21 percent of university and government organizations reported having done so, as we believe it is generally perceived that these organizations have been historically reluctant to enforce IP rights. Perhaps, times are changing. It is important to note that while involvement in some enforcement activity is widespread, licensing to settle or enforce rights accounts for a very small fraction (10 percent or less) of total effort/resources of the licensing function. (See Table 9.)

We found that respondents indicated that most disputes were with parties in the same industry and operating in the same relative space in the value chain. Interestingly, much enforcement activity seems to take place largely within the set of R&D performing companies. Relatively little enforcement is reported to be directed at entities with no internal R&D or product development capacity. (See Table 10.)

Impact of Patent Trolls

"Patent Trolls" have attracted much controversy and comment in recent years.[7] But outside of some highly publicized cases, the impact of trolls is unclear. For some organizations the threat of litigation by patent trolls may have only limited impact, requiring relatively little management time and resources, analogous to the background level of "slip and fall" litigation faced by any business. Most

Table 11. Technology Makers and Users
Patent Trolls



7. As used in this survey "patent troll" refers to entities that apparently exist solely to exploit a specific piece of IP and have no product development, manufacturing or marketing capacity. The business press characterizes patent trolls in a similar fashion. For example, *Business Week* refers to patent trolls as "…businesses that make money by purchasing patents and then suing big companies for infringement"(April 7, 1998). *Forbes* describes a patent troll as "…someone who demands undeserved royalties" (May 5, 2008). *Financial Times* describes a patent troll as "…operates by coming up with ideas and then registering them to block others in the field" (May 9, 2008). *Investors Business Daily* describes patent trolls as "…patent-licensing firms that often end up taking legal action. Critics say trolls seldom ever create any inventions worthy of patents themselves" (May 29, 2008). *The Wall Street Journal* describes patent trolls as "…companies [that] acquire patents with the sole purpose of licensing them to others without ever manufacturing products" (September 17, 2008).

Table 12. Technology Makers and Users Patent Trolls

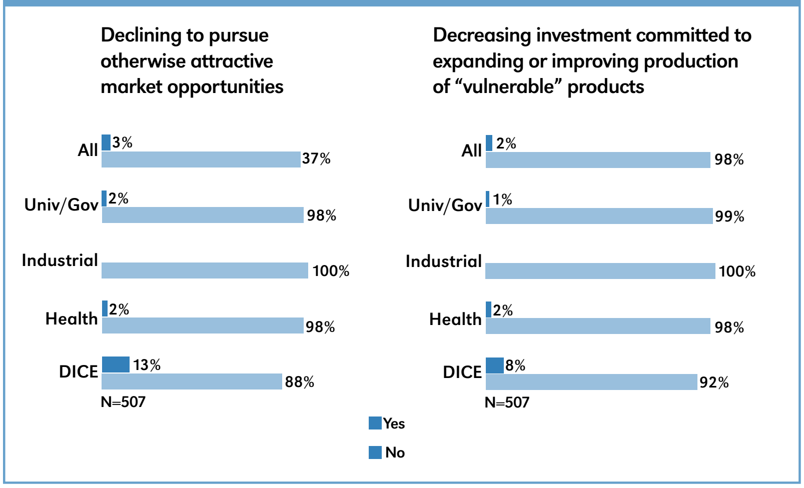


Table 13. Technology Makers and Users Patent Trolls

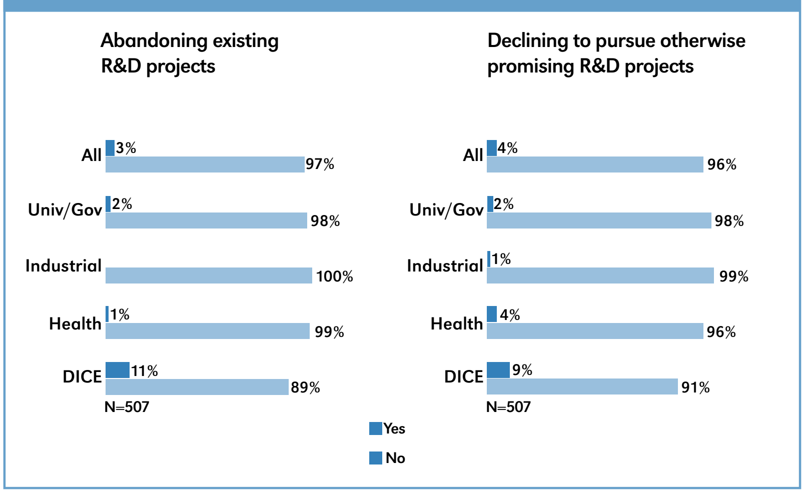
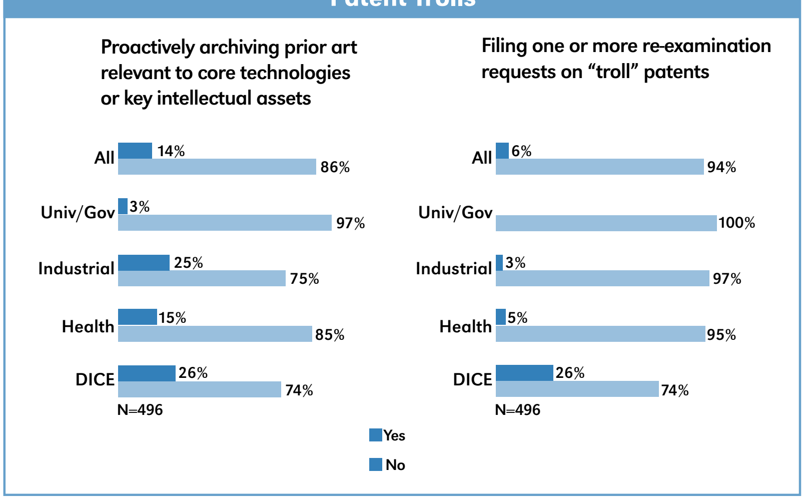


Table 14. Technology Makers and Users Patent Trolls



of the respondents to this survey agreed with this "slip and fall" risk characterization of the impact of patent trolls on their business. (See Table 11.)

However, 31 percent of respondents in the DICE sector indicated that the impact of patent trolls was substantial, consuming significant time and resources and altering the strategic direction of their business. Companies in the DICE sector, more than in any other sector, reported that they had:

• Declined to pursue otherwise attractive market opportunities (13 percent) or decreased investments committed to expanding or improving production of products of potentially vulnerable to patent trolls (8 percent) (See Table 12.);

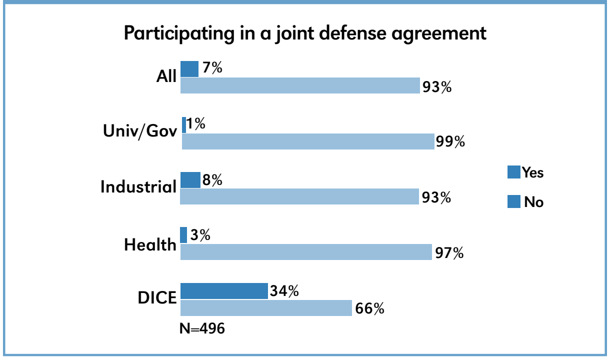
• Abandoned existing R&D projects (11 percent) or declined to pursue other R &D projects (9 percent) because of the threat of patent trolls (See Table 13.);

• Proactively archived prior art relevant to core technologies or key intellectual assets (28 percent) and filed one or more reexamination requests on "troll" patents (28 percent)(See Table 14.); and

• Participated in joint defense agreements (34 percent). (See Table 15.)

These data indicate that the economic impact of patent trolls is both highly concentrated, and limited largely to a small but important constituency of LES US/C, namely large DICE companies. For these companies, patent trolls, or the threat of trolls, are a very real problem. But why is this confined to the DICE sector? Perhaps this is a reflection of the issuance of what some economists and attorneys have characterized as overly broad patents issued in the past in software and related technologies? Or perhaps companies in other sectors have been more proactive in developing

Table15. Technology Makers and Users Patent Trolls



and deploying business strategies and tactics to avoid or address such threats.

Summary

We were impressed with a number of findings:

• The relatively brief experience of the licensing and business transactional professionals among Technology Creators/Users, that is, 38 percent had 5 years or less experience.

• The finding that only 33 percent of respondents had thought about recent court rulings and the real or potential impact on their business, and only 40 percent of respondents were knowledgeable about these rulings. Would more respondents be concerned about the impact of these court rulings if they were more knowledgeable about them? Had respondents that were more concerned made a greater effort to become more knowledgeable? The data did not allow us to differentiate. We saw a disproportionate level of both concern and knowledge among large DICE companies.

• The finding that only 7 percent of respondents believed trolls have had a substantial impact on their business, and these respondents were almost exclusively from large DICE companies.

• The data suggest that for LES (USA & Canada) the recent court rulings and the threat of patent trolls present both a challenge and opportunity. There appears to be a need to raise the level of education both deeply and quickly among the membership. There are clear differences among industry sectors who are apparently concerned about different issues.

Future Plans

Given budget constraints, The Licensing Foundation does not plan to conduct additional surveys for the foreseeable future. The responses of LES US/C members to this and previous surveys have been gratifying. We hope and trust that we, and those who have come before us, have provided useful insights.

Acknowledgments

The Licensing Foundation wants especially to recognize that its funding has been primarily the result of contributions made by LES (USA & Canada). We have also received limited financial contributions, and massive time and wisdom contributions from many different LES US/C members. These contributions are gratefully acknowledged. Most of all we want to acknowledge the effort made by the respondents, thank you!

Appendix A

Sample and Survey Design

Survey Administration

The survey was administered in the form of online questionnaires accessed via the Internet. Approximately 6,000 members of the Licensing Executives Society (U.S.A. and Canada), Inc. were invited in April/May 2008 to participate in the survey via several rounds of email from The Licensing Foundation. The Web survey format was chosen to limit costs, maximize accuracy and to be minimally intrusive. This type of survey also allows for "dynamic" serving of questions in response to users' input, minimizing the extent to which respondents are presented with irrelevant or redundant questions. When used for "closed" list-based samples such as the LES US/C membership mailing list, Web surveys have been shown to perform as well or better than traditional hardcopy mail-back survey instruments. Separate versions of the survey were administered to the approximately 3,000 members identified as technology creator/users and to the approximately 3,000 identified as being providers of professional services (legal, consulting, etc.). LES US/C members self-report, job title, company, professional status, and industry affiliation; nonetheless there is substantial scope for errors in identifying respondents as "Technology Creator/User" versus "Professional Services." The survey Web site received more than 1,000 hits with 643 respondents completing at least one question on the Technology Creator/User Survey, plus 304 on the Professional Services Provider Survey. Respondents were guaranteed anonymity, and no records linking their identity to the database of survey questionnaire responses have been retained.

Response Rate

Of the more than 700 visits to the Technology Creator/User survey Web site, 643 respondents completed at least one question. After eliminating records for respondents who appear to have moved through the questionnaire without answering more than a handful of questions, the final sample contains 602 usable records. where the respondent answered most, or all, of the questions presented to them.

Response rates to specific questions were generally high, generally greater than 80 percent of the "core sample" of respondents. Note that because the survey questionnaire branched at various points to ensure that respondents were only presented with relevant questions, the denominator for calculating response rates is not always 602. For example, of the total of 602 "core sample" records analyzed, only 334 were presented with questions about in-licensing after answering "Yes" to Q22—"Is your organization involved in any in-licensing agreements?" Note also that for questions posed in "tabular" format, e.g. where the respondent was asked to "check all that apply" or to answer several questions on the same general topic, if they answered any of the questions in the table, missing responses to other questions in that table are interpreted as "N/A" or "Don't know" as appropriate.

The degree to which the results presented here can be considered statistically representative of all technology licensing activity in North America is difficult to assess. It is important to note that the LES US/C membership list is a "convenience sample," not a randomized quota based or stratified sample designed to be statistically representative of an underlying population. "Frame bias" i.e. unrepresentativeness of the LES US/C membership list compared to the population of all licensing professionals is unlikely to be a significant problem, unless there are large numbers of people engaged in technology licensing who are not members of LES US/C, and who differ systematically from those who are. "Response bias," i.e. systematic differences between the members in the sample who choose to respond and those who do not, is not possible to assess fully. The distribution of respondents across industry sectors approximates the distribution in the entire mailing list, with some overrepresentation of the Healthcare and University/Government sectors. However, since we lack information about other characteristics of non-respondents, such as the size of their organization, it is not possible to evaluate potential bias arising from different response rates across, e.g., large versus small entities.

Though 602 responses from a sample frame of 3,000 (for the Technology Creator/User version of the survey) may seem low, it is in line with similar voluntary surveys that typically have a 10-30 percent response rate. Note that because LES US/C membership is individual, not corporate, a single organization can appear multiple times in the mailing list. The LES US/C members identified as belonging to the Technology Creator/User category come from less than 1,200 distinct organizations, with very few organizations generating multiple responses. We therefore achieved coverage of about 50 percent of the total number of Technology Creator/User organizations represented in the LES US/C membership.[8] LES US/C members who were sent the Professional Services Provider version of the survey had lower response rates (277 from about 3,000) but it should be recognized that a substantial fraction of these members are unlikely to be able to respond meaningfully to this survey, since they are student members, executive recruiters, and the like.

Demographics/Background of Respondents' Organizations

We asked a series of "demographic" questions about respondents' organizations to help with putting their answers in context.

About two-thirds (62 percent) were responding on behalf of a "corporate licensing office reporting for the entire company." The remainder responded on behalf of a licensing office within a business unit or division (34 percent) or a stand-alone licensing subsidiary (4 percent). The number of licensing professionals in each organization varied widely: 20 percent of respondents reported that they were the only licensing professional in their organization, 38 percent belonged to organizations with two to five, and 30 percent had 5 to 25—so almost 90 percent of licensing offices had less than 25 licensing professionals—but 2 percent responded that they were part of 100+ licensing groups.

Health Care was the dominant industry (46 percent), generally reflecting LES US/C membership, with an additional 28 percent from universities/government labs. The sample was evenly split between large (>500 employees) and small organizations. Respondents' organizations were heavily engaged in R&D: 70 percent reported being active in basic research and 73 percent were active in developing new products and services, while less than 40 percent were engaged in production of goods or services or selling to end-users. The average organization in the sample had $8.7B in annual revenues, 8,200 employees and spent $493MM in the past year on R&D. But these figures conceal wide diversity: almost 15 percent of organizations had less than 20 employees, and 25 percent had more than 10,000; 13 percent reported $1MM or less in annual revenues, while more than 30 percent reported more than $1B; and 9 percent reported $1MM or less in annual R&D spending while 11 percent reported over $1B. ■

8. The figure is approximate since individual members do not always identify their organization to LES.