

Licensing: a view from the trenches
Selected findings from the LES Foundation Surveys

Iain M. Cockburn
Boston University and NBER

FTC, April 2009

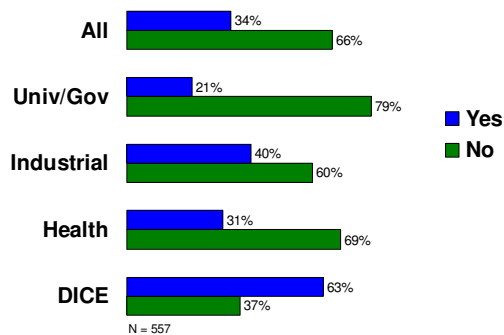
LES Foundation Surveys

- Conducted annually for past 5 years
 - ▶ Richard Razgaitis
 - ▶ Lou Berneman
 - ▶ Foundation Board
- Web survey of LES membership
 - ▶ ~500 respondents
- Results reported in *les Nouvelles*, 2005, 2006
2007, 2009

Some “Stylized Facts” from LES members

- 1/3 of respondents involved in an IP dispute in any given year, but 80-90% of time/resources is opportunity-oriented
- Licensing is difficult:
 - ▶ Would never sell 1/3 of own IP inventory
 - ▶ Of the remaining 2/3, 40-50% will never be sold
 - ▶ Deals are difficult to do: 50% of “substantive negotiations” fail to produce an executed agreement (most often b/c can’t agree on price)
 - ▶ IP very difficult to value: formal valuation models not used in 2/3 of deals
 - ▶ Buyer/seller remorse is extensive: ex post many deal terms would be revisited
- Licensing is growing in importance: more resources, higher profile
- Digital/Information/Communications/Electronics “DICE” sector is different

In the past 12 months, has your organization entered into any licensing agreements in order to settle or avoid litigation or to enforce your IP rights (“dividing the pie”), as opposed to being motivated by a business development opportunity (“increasing the size of the pie”)?



But NB only 10% or less of total activity is dispute oriented

Q27: Thinking about your organization's entire inventory of IP, approximately what % would you be willing to license but are unlikely ever to succeed in doing so?

	0%	1-5%	5-25%	25-50%	50-75%	75-99%	100%	Mean (>=0)
All	4.00%	7.10%	28.30%	23.60%	15.70%	6.20%	4.60%	37.00%
D/I/C/E	4.40%	11.10%	33.30%	15.60%	17.80%	4.40%	2.20%	31.90%
Health	5.90%	11.90%	34.20%	21.80%	7.90%	2.50%	2.00%	26.40%
Industrial	5.10%	3.80%	30.80%	23.10%	15.40%	7.70%	2.60%	36.50%
Univ/Gov	.	.	15.60%	29.70%	27.30%	11.70%	10.90%	54.20%
Large	2.30%	7.90%	24.50%	23.00%	20.80%	8.30%	4.20%	40.60%
Small	6.40%	5.90%	33.50%	24.50%	8.50%	3.20%	5.30%	31.90%

Q29: For IP that could have been licensed but wasn't, for what fraction could you identify at least one potential licensee?

	0%	1-5%	5-25%	25-50%	50-75%	75-99%	100%	Mean (>=0)
All	7.20%	7.00%	20.50%	16.90%	12.50%	11.30%	10.80%	44.20%
D/I/C/E	7.70%	5.10%	15.40%	20.50%	7.70%	15.40%	5.10%	43.50%
Health	11.80%	6.40%	14.40%	15.00%	15.00%	9.60%	13.90%	46.00%
Industrial	5.70%	8.60%	18.60%	11.40%	12.90%	11.40%	12.90%	46.90%
Univ/Gov	0.80%	7.60%	32.80%	21.80%	10.10%	12.60%	6.70%	40.40%
Large	6.10%	8.50%	24.30%	16.60%	12.10%	10.50%	6.50%	39.40%
Small	8.90%	4.80%	14.90%	17.30%	13.10%	12.50%	17.30%	50.90%

Q23: Compare a \$10M IP licensing transaction with one involving a tangible asset of similar dollar value (e.g. leasing real estate or contracting for use of a specialized production facility.) In your experience:

	Don't know	Strongly disagree	Disagree	Agree	Strongly agree	Score (0-4)	Mean	Std
(a) There are usually fewer potential buyers/sellers for the IP 40% (DICE)								
All	12.90%	0.90%	13.20%	46.50%	26.50%	2.7	1.2	
(b) The IP deal will require more attention from top management 33% (DICE)								
All	10.90%		24.50%	45.50%	19.00%	2.6	1.1	
(c) Due diligence will be much more difficult/costly for the IP deal 34% (DICE)								
All	10.30%	0.40%	18.00%	44.80%	26.40%	2.8	1.2	
(d) Negotiations with a specific buyer/seller will be more difficult to bring to closure 42% (DICE)								
All	12.10%	0.40%	20.30%	46.60%	20.50%	2.6	1.2	
(e) The IP more likely to end up not being licensed or sold to anyone 19% (Univ)								
All	14.00%	1.80%	27.60%	43.50%	13.10%	2.4	1.2	
(f) The IP deal is more likely to be negotiated in parallel with other agreements 14% (Health, Small)								
All	19.40%	0.20%	28.90%	43.00%	8.40%	2.2	1.2	

Q38: In what % of substantive licensing negotiations was a formal valuation model used by your side?

	1-5%	5-25%	25-50%	50-75%	75-100%	Mean
All	13.20%	18.80%	12.20%	13.40%	22.70%	36.00%
D/I/C/E	10.50%	10.50%	10.50%	18.40%	23.70%	38.10%
Health	6.60%	15.90%	11.00%	18.10%	33.00%	46.90%
Industrial	11.10%	19.40%	15.30%	9.70%	25.00%	36.90%
Univ/Gov	25.40%	25.40%	12.70%	6.80%	5.10%	18.00%
Large	14.40%	18.50%	11.90%	14.00%	23.50%	37.00%
Small	11.40%	19.20%	12.60%	12.60%	21.60%	34.70%

Q42: Thinking about licensing agreements entered into in the last 12 months, with the benefit of hindsight which if any of the following contract characteristics would you now restructure?

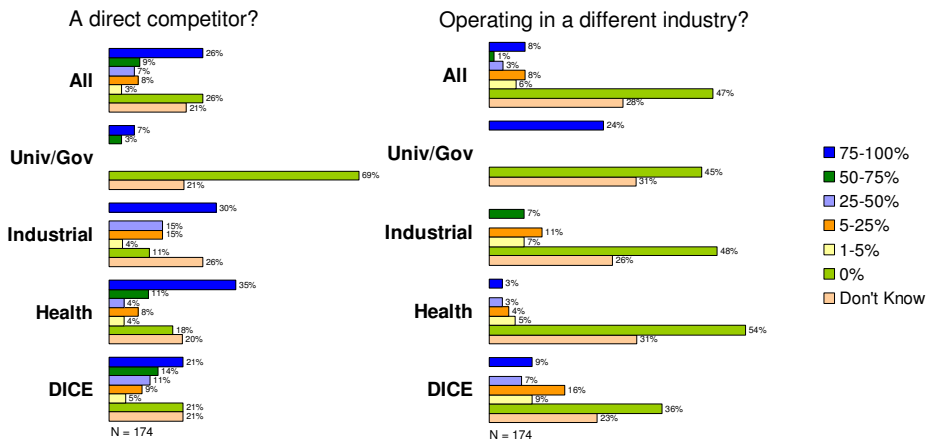
	Checked	
(a) Field of use restrictions?	43.10%	53% Univ/Gov
(b) Duration of agreement?	22.40%	
(c) Degree of exclusivity?	33.20%	17% DICE
(d) Most-favored-nation (MFN) provisions?	14.00%	29% DICE
(e) Technical milestones?	40.20%	
(f) Business milestones?	43.70%	58% Univ/Gov
(g) Grant-back provisions?	22.90%	
(h) Reach-through provisions?	9.70%	
(i) Payment structure (e.g. balance between upfront fees vs. running royalty)?	32.10%	
(j) Payment amounts (e.g. royalty rate or amount of upfront fees)?	35.00%	

Q43: What are the three most common reasons why you would restructure some of last year's deals if you could? (Check UP TO 3 of the following)

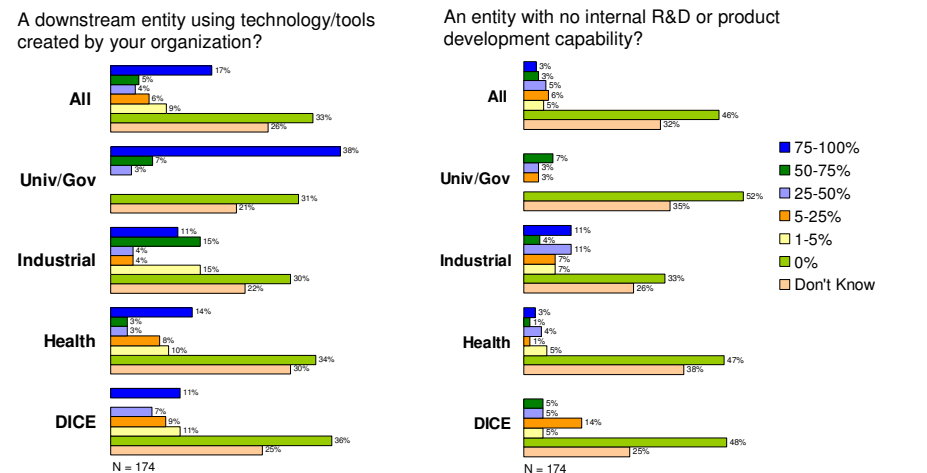
	Checked
(a) New information has emerged about the market	56% DICE, 38.90%
(b) New information has emerged about the performance of the	33.20%
(c) Stronger IP position today	16.80%
(d) Revised business strategy	50%, 54% DICE, Ind, 40.50%
(e) Realize that you made mistakes negotiating	28.40%
(f) Revised your view of the most profitable licensing strategy	20.00%
(g) The other side is not putting their promised effort into the	36%, 72% DICE, Ind, 52.90%
(h) Other	5.00%

Focus of enforcement activity

Of the times that your organization initiated enforcement activity (notification of infringement, litigation, arbitration, etc.) in what percentage of cases was the other party:



Of the times that your organization initiated enforcement activity (notification of infringement, litigation, arbitration, etc.) in what percentage of cases was the other party:

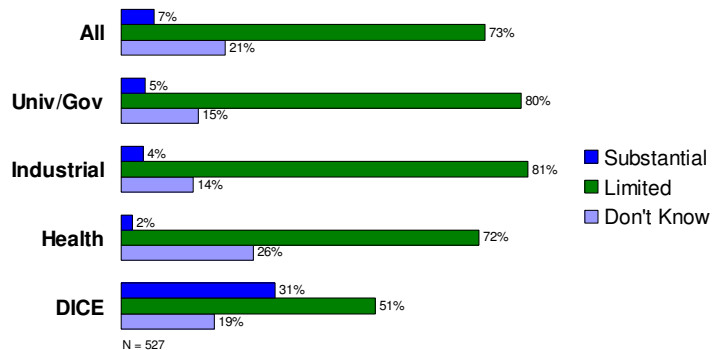


Patent “Trolls”

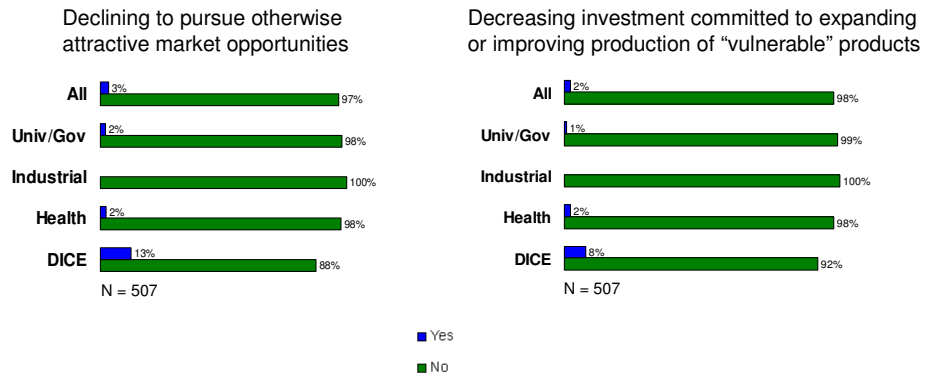
See Berneman et al. *les Nouvelles* March 2009

For some organizations, the threat of litigation by “trolls” may have only a limited impact, requiring relatively little management time and resources (analogous to the background level of “slip and fall” litigation faced by any business). For others, the impact may be substantial, consuming significant time and resources and altering the strategic direction of business.

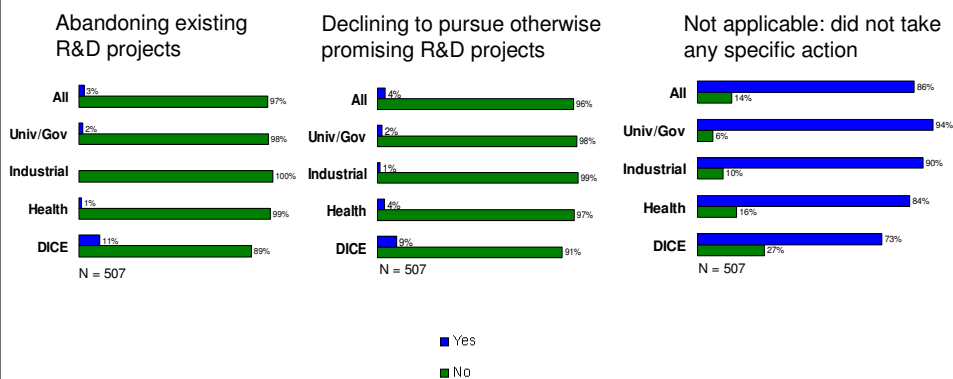
In your opinion, the impact of “trolls” on your organization has been:



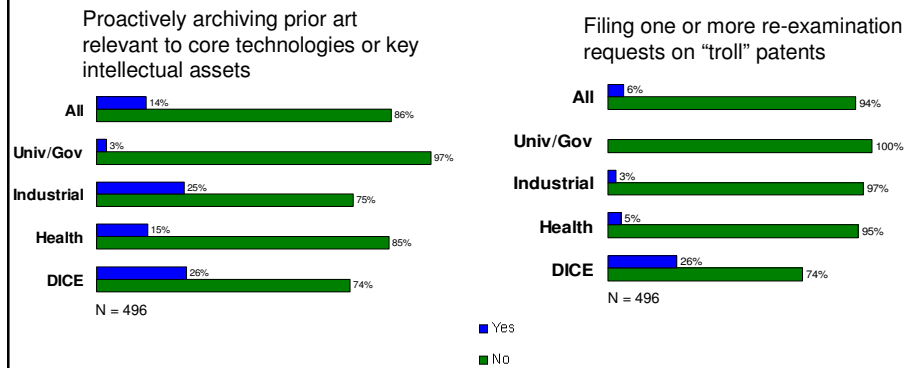
In the past 12 months, your organization has responded to actual or threatened "troll" litigation by taking such actions as (please check all that apply):



In the past 12 months, your organization has responded to actual or threatened "troll" litigation by taking such actions as (please check all that apply):



In the past 12 months, your organization has sought to mitigate the risks posed by “troll” litigation by increasing effort on such as activities as (please check all that apply):



In the past 12 months, your organization has sought to mitigate the risks posed by “troll” litigation by increasing effort on such as activities as (please check all that apply):

