

IPO Corporate IP Management Practices Project

Licensing In – Summary

In general, approximately 25 percent of the companies interviewed did not respond to questions related to licensing-in activities.

Who is responsible for identifying opportunities?

Nearly half of all interviewed companies responding indicated that business units and technical / R&D staff identify licensing-in opportunities (vs. staff from legal / IP). Nearly as many companies indicated that it is very rare for in-licensing to occur or that there are very low volumes of transactions. Twenty percent of companies indicated that the IP / legal team would get involved to draft and negotiate an agreement after a licensing in opportunity is identified.

While there was no strong trend among respondents, the following were noted by individual respondents: (1) opportunities sometimes resulted from a Freedom-to-Operate analysis; (2) Crowd-sourcing was used to identify licensing-in opportunities; (3) one company indicated an increasing number of licensing-in transactions, mostly to complement M&A deals; (4) opportunities sometimes came from interaction with co-development partners or suppliers; (6) being approached by licensors seldom results in a transaction due to low quality of technologies being offered; (7) commitment to open source makes licensing-in rare.

Are licensing-in opportunities proactively or passively identified?

Only 20 percent of companies interview provided responses to this question, with an even split of active and passive identification of licensing-in opportunities. Those that proactively identified licensing-in opportunities indicated this stemmed from crowd sourcing and R&D / Innovation initiatives. One company indicated that the quality of opportunities presented by third parties is low.

How is pricing determined? Who approves pricing decisions?

The most frequent response to who determines and approves pricing is the business unit and technology teams; however, one company also indicated that legal was involved in pricing decisions. One interviewed company indicated that they preferred a running royalty structure for in-licensed technology to ensure that they only pay when the licensed IP/technology is used. Another company stated that two important factors used in determining pricing were: (1) the stage of development (lower pricing if earlier stage); and (2) the relative importance of the licensed IP / technology to the business.

Is there coordination between licensing-in and R&D efforts (make v. buy decisions)?

The overwhelming majority of companies responding to this question indicated that there is coordination (that is, a make v. buy decision is being made). One company indicated they sometimes used a third-party consultant to help with this decision-making. Another company indicated that they often seek to select a supplier that can provide the technology instead of licensing-in and manufacturing themselves.

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Licensing In – Detailed Key Takeaways

- 1) Fortune 500 Energy Company
 - a. Who is responsible for identifying opportunities?
 - i. Licensing-in is rare
 - ii. There is not a specific person who identifies opportunities
 - iii. Usually business unit or R&D discovers these when they want to explore a technology that is proprietary to somebody else
 - iv. Licensing third party patents also can result from FTO assessments conducted by Legal
 - b. Are licensing-in opportunities proactively or passively identified?
 - i. Passively as the need for protected technology arises
 - c. How is pricing determined? Who approves pricing decisions?
 - i. Business unit manager
 - d. Is their coordination between licensing-in and R&D efforts (make v buy decisions)?
 - i. No
 - ii. R&D project managers identify the issue
- 2) Fortune 500 Chemical Company
 - a. Who is responsible for identifying opportunities?
 - i. Small group of technical employees (fellow-level in R&D group – technical expert / not a manager; with a few assistants)
 1. Look for opportunities to outsource technology development
 2. This group determines if there is interest among senior leaders to license-in
 - a. Depending on nature of license, technical and business development group will review
 - b. If good opportunity, IP group becomes involved
 - ii. Low volume, but open to licensing-in for solutions to problems
 - b. Are licensing-in opportunities proactively or passively identified?
 - i. Passively
 - c. How is pricing determined? Who approves pricing decisions?
 - i. Primarily technical team, maybe M&A group and business group to attempt to determine fair value
 - ii. Prefer running royalty arrangement (pay licensor when company gets paid)
 1. Occasionally flat fee or payment over time
 - d. Is there coordination between licensing-in and R&D efforts (make v buy decisions)?
 - i. Coordination with R&D is: Should we do this inside or should we look for an outside solution first?
 - ii. Sometimes use third party consultants
- 3) Global Chemicals and Materials Company
 - a. No answer
- 4) World-Wide Fortune 100 Industrial Company
 - a. Who is responsible for identifying opportunities?
 - i. Project development team

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- ii. The Company doesn't go to third parties for this
 - b. Are licensing-in opportunities proactively or passively identified?
 - i. Project/BU team that identifies something they want from the outside. They're happy to get help from someone else if it is most cost effective
 - ii. The Company finds most people that approach them offering licenses are not very high-quality.
 - c. How is pricing determined? Who approves pricing decisions?
 - i. There is a negotiation based on whether this is completely new to the Company (in which case the licensor should share some risk by accepting lower price) vs. whether the Company has failed to make solution and is invested in the space, in which case maybe they'll pay top dollar
 - d. Is their coordination between licensing-in and R&D efforts (make v buy decisions)?
 - i. Yes, b/c project team is involved
 - ii. R&D guys generally like to see a new R&D project! So, they're not the ones to typically push to obtain technology from outside.
- 5) Water and Wastewater Treatment Products/Systems Company
 - a. The Company does not actively seek to license-in any IP assets but will do so when appropriate
- 6) World-Wide Fortune 100 Industrial Company
 - a. Who is responsible for identifying opportunities?
 - i. No proactive group
 - ii. Some crowd-sourcing
 - 1. Going outside of company may be needed if the Company has a problem and needs a solution
 - 2. Company could license-in or purchase the solution—case by case
 - b. Are licensing-in opportunities proactively or passively identified?
 - i. Proactive with crowd source, but generally not actively sought
 - c. How is pricing determined? Who approves pricing decisions?
 - i. The BU approves the pricing decision and negotiates the price
 - d. Is there coordination between licensing-in and R&D efforts (make v buy decisions)?
 - i. Yes.
 - 1. Part of the new product introduction process
 - 2. Usually a supplier is chosen rather than to take a license—purchase versus license-in versus develop internally options are evaluated but the company usually chooses to purchase the product
- 7) Large Company in the Automotive Industry that is a Wholly Owned subsidiary of an international parent company
 - a. Who is responsible for identifying opportunities?
 - i. Business unit leaders, make decisions regarding whether to license or not.
 - b. Are licensing-in opportunities proactively or passively identified?
 - i. Actively based on R&D and other innovation projects.
 - c. How is pricing determined? Who approves pricing decisions?
 - i. The Technical, Business and Legal teams determine and approve pricing decisions.
 - d. Is their coordination between licensing-in and R&D efforts (make v buy decisions)?

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- i. Yes, the IP Attorneys fill the roll in coordinating licensing-in and R&D efforts.
- 8) Subsidiary of a Multi-National Industrial Conglomerate
 - a. Some subsidiaries license-in IP and/or technology based on their needs. The centralized group is involved in licensing-in by providing legal support for contracts on occasion but most licensing-in activity is driven and executed by the subsidiaries.
- 9) International Transaction Processing and Payment-Related Products and Services Company
 - a. Licensing-in activity is increasing and is driven by the business units. The company's strategic transactions group that is typically focused on merger and acquisitions has assisted with licensing-in transactions.
- 10) Fortune 500 Semiconductor Company
 - a. Who is responsible for identifying opportunities?
 - i. Licensing in is uncommon, but may occur when an employee is working with an outside company. Possibly the company may need a component customized, and would talk to the technology owner to buy the technology and the right to customize.
 - ii. Occasionally, others approach the company to solicit technology, but such situations rarely result in a license.
 - iii. Sometimes, opportunities float up from business employees, but approval from the Unit VP would be required so it would be rare.
- 11) Fortune 500 Energy Company
 - a. No answer.
- 12) Communications Equipment Company
 - a. No answer.
- 13) High Tech Company
 - a. No answer.
- 14) World-Wide Fortune 500 Drug Company
 - a. How is pricing determined? Who approves pricing decisions?
 - i. Business Development figures out the price. Business Development are deal professionals. They work with senior management. IP doesn't have a hand in this.
- 15) Aerospace and Defense Company
 - a. Licensing appears to be:
 - i. incoming-only
 - ii. as-needed only.
- 16) International Industrial Conglomerate
 - a. Just main player cross-license.
- 17) Multinational Manufacturing Company
 - a. No answer.
- 18) Large IT services company
 - a. Patent Prosecution & Licensing
 - i. The Company's patent attorneys write and file applications, as does outside counsel (typically specialized, boutique patent firms). Company patent attorneys typically file the most strategically important cases. Important cases are typically 1st generation technology that the Company is developing.

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About 2/3rds of the patent work for the Company is handled by outside prosecution counsel.

- ii. The driving consideration for patenting is whether the subject matter: 1) Is an important new tech area for the business, 2) Relates to a product for commercialization; 3) Is appreciable from viewing or using the product; and 4) Is viewed as important tech to a competitor. The Company's decision is more strategic than tactical.
- iii. The decision to file starts with engineering and making the case for importance. From there, the decision can be impacted, rightly or maybe not rightly, on internal politics.
- iv. The Company actively prunes the portfolio. The pruning is done on a case-by-case basis. The reason for pruning is that there may be diminished interest in the technology to the business and to what is perceived by competitors as important. It may be the case that an application has lingered at the PTO process too long and will result in too narrow of protection than is valuable.
- v. Design patents are less important to the Company's business presently.
- vi. The IP Group leads and implements decision making involving patenting, but gets input from technical directors and engineering.
- vii. The IP Group has one budget to start. It is tracked on a monthly basis.
- viii. The Company tends not to pursue licensing in or out. It is a very minor component of the IP Group's efforts. There is no formal patent licensing program. It is proposed occasionally.
- ix. The Company does not have any active efforts to monetize its portfolios.
- x. The Company does not buy or license naked patents or portfolios.
- xi. The Company does buy businesses which may have patent portfolios to evaluate and value. The IP Group is responsible in those cases for the assessment of portfolios in a company to be acquired. The IP Group looks at such things as whether the filings were up to snuff, and look for evidence that the Company was trying manufacture a portfolio that would be appealing on paper.

19) Large Internet Software and Services Company

- a. The Company values and respects innovation whether it creates the innovation itself or others create it. The Company promotes an open innovation network that discourages monetization and encourages open source activity. The Company proactively engages other companies that have developed technology that benefits the Company's products and service and/or that mitigates risk from other IP asset holders. The Company works heavily with Universities to develop technology.

20) Healthcare Equipment Company

- a. A separate group is responsible for licensing. The Company adopted Boehringer Mannheim's licensing model when they acquired the German company in 1998. The licensing group will negotiate the terms of the agreement. The legal department will memorialize the terms in a formal agreement. The patent group supports the overall effort in analyzing the patent at issue, etc. This is partly driven by the fact that the company depends on European solicitors and European patent attorneys vs. U.S. patent attorneys who are licensed to practice both patent and transactional law.

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- b. Licensing is a cost of doing business. It burdens the end product, and if it burdens it too much, then the strategy is not aligned.

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