

IPO Corporate IP Management Practices Project

Licensing Out – Summary

Who makes decisions regarding whether to license or not (e.g., business unit, leaders, product leaders, legal, etc.)?

Not all of the companies interviewed have a significant licensing-out business. The companies that license out technology as part of their business strategy either use a separate licensing department to manage the licensing business or allow the business unit in charge of the technology to manage the licensing business.

The companies that employ a separate department to manage the licensing business appear to have a large portion of their respective business related to licensing. As such, the separate department supports a licensing business unit and assists in making decisions regarding licensing.

The companies that enable their business units to make licensing decisions generally have less licensing out available to them or seek fewer licensing opportunities as compared to the companies that have a separate licensing department. As such, the business unit evaluates each potential licensing opportunity with respect to the goals of the business unit and the opportunity (e.g., revenue, alternative to infringement lawsuit) that the license may bring.

A small portion of the interviewed companies have licensing-out decisions controlled by one person (e.g., CTO, Chief IP, VP, or R&D) or by a few people. These companies appear to have limited licensing-out opportunities or may use licenses to resolve rare issues (e.g., potential infringement suits).

Do you have policies regarding which patents can be licensed (core and/or non-core)?

Most companies do not have a policy regarding which patents can be licensed. Of those that responded that they do have a policy, the policy is developed by the business unit in accordance with a business strategy.

Are licensing out opportunities proactively or passively identified?

The majority of companies interviewed do not have a substantial licensing-out business. As such, these companies passively identify licensing opportunities based on relationships, suppliers, or certain circumstances. The companies that do have a business focus with respect to licensing proactively identify licensing opportunities. The proactive companies analyze the potential market and identify potential licensing out targets.

If proactive, do you use a broker? What are the terms of such brokering relationships (e.g., contingent agreements, hourly, other)?

For the most part, brokers are either not used or rarely used by the companies interviewed. The companies that rarely use brokers fail to see much value in the broker or dictate whether to use a broker based on the technology area.

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How is pricing determined? Who approves pricing decisions?

Pricing is generally determined by the business unit with support from the IP legal team. For those who have a general pricing strategy/formula, licensing makes up an important aspect of its business. As such, these business units have a general understanding and feel for appropriate pricing.

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Licensing Out – Detailed Key Takeaways

- 1) Fortune 500 Energy Company
 - a. Who makes decisions regarding whether to license or not (e.g., business unit leaders, product leaders, legal, etc.)?
 - i. Licensing business is focused on a particular technology area
 - ii. This is separate from the legal department (it is a standalone licensing business), but the legal department supports this licensing business
 - b. Do you have policies regarding which patents can be licensed (core and/or non-core)?
 - i. No written policy, but there is guidance as to this
 - c. Are licensing-out opportunities proactively or passively identified?
 - i. Both
 - ii. Very proactive with respect to the business unit that does licensing
 - iii. The rest of the business units are passive
 - d. If proactive, do you use a broker? What are the terms of such brokering relationships (e.g., contingent agreements, hourly, other)?
 - i. No broker – use internal people
 - e. How is pricing determined? Who approves pricing decisions?
 - i. These decisions are made by the business unit manager
- 2) Fortune 500 Chemical Company
 - a. Who makes decisions regarding whether to license or not (e.g., business unit leaders, product leaders, legal, etc.)?
 - i. Do not do much licensing out
 - ii. Focus patent activities on core businesses, so don't license out their core technologies – Patents are mainly obtained for freedom to operate and exclusivity
 - iii. Business unit leaders primarily make licensing-out decisions for business reasons
 1. Revenue generation
 2. License to suppliers or customers if there is a business opportunity to support them
 - b. Do you have policies regarding which patents can be licensed (core and/or non-core)?
 - i. No policies per se, but do not license core patents, as a practical matter, unless it is a cross-license as part of a major dispute
 - c. Are licensing-out opportunities proactively or passively identified?
 - i. Passively identified – introduced from business side through opportunity or request
 1. Sometimes, licensing-out is done to provide customers with a “second source”
 - ii. No licensing manager – used to have one, but wasn't justifiable to continue
 - d. If proactive, do you use a broker? What are the terms of such brokering relationships (e.g., contingent agreements, hourly, other)?
 - i. Never used a broker – don't have a portfolio to justify this
 - e. How is pricing determined? Who approves pricing decisions?
 - i. Determined by business team and legal team, with R&D/technical support
 - ii. Small volume, so less complex
- 3) Global Chemicals and Materials Company

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- a. Who makes decisions regarding whether to license or not (e.g., business unit leaders, product leaders, legal, etc.)?
 - i. They both license in and license out
 - 1. More licensing in
 - ii. In chemical industry, licensing is often used as a dispute resolution strategy rather than litigation.
 - 1. If they get wind of infringement, Chief IP Counsel will pick up the phone and call other company to start licensing discussions
 - 2. A lot of disputes are with customers. Often, customers will have received confidential information from the Company engineers and then they'll go and file their own application. Chief IP Counsel will call them up and ask if perhaps a Company engineer should be listed as an inventor.
 - iii. Ad-hoc process. Things are identified by the business, by the scientists.
 - iv. Chief IP Counsel is responsible for it from the legal perspective
 - 1. Makes decision along with leaders of the business
 - b. Do you have policies regarding which patents can be licensed (core and/or non-core)?
 - c. Are licensing-out opportunities proactively or passively identified?
 - d. If proactive, do you use a broker? What are the terms of such brokering relationships (e.g., contingent agreements, hourly, other)?
 - e. How is pricing determined? Who approves pricing decisions?
 - i. Pricing – they generally understand the value proposition behind their products, so they are pretty good at figuring out where the price should be.
- 4) World-Wide Fortune 100 Industrial Company
- a. Who makes decisions regarding whether to license or not (e.g., business unit leaders, product leaders, legal, etc.)?
 - i. Different BUs have different strategies
 - ii. Maybe based on opportunity. Maybe based on IP that the BU is not using
 - iii. Made by business, with input from CTO/VP of R&D
 - 1. The CTO makes sure no BU does something detrimental to another BU
 - iv. Revenue from licensing out goes to the BU(s) that owns the technology
 - b. Do you have policies regarding which patents can be licensed (core and/or non-core)?
 - i. No absolute policies
 - ii. Tech release approval process
 - iii. CTO approval required
 - c. Are licensing-out opportunities proactively or passively identified?
 - i. Same as 14
 - d. If proactive, do you use a broker? What are the terms of such brokering relationships (e.g., contingent agreements, hourly, other)?
 - i. They've tried broker approaches in past. But they haven't had great results. He hasn't seen the Company do much of this in past 5 years.
 - e. How is pricing determined? Who approves pricing decisions?
 - i. The Ccompany has a licensing function in place, which is skilled at providing value determinations for licensing opportunities

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- ii. They recognize that sometimes something that is commercially significant to another company is not significant to the Company.
- 5) Water and Wastewater Treatment Products/Systems Company
 - a. The Company generally does not attempt to license-out any IP assets.
- 6) World-Wide Fortune 100 Industrial Company
 - a. Who makes decisions regarding whether to license or not (e.g., business unit leaders, product leaders, legal, etc.)?
 - i. BU makes the decision usually several BUs are involved in the decision making process.
 - b. Do you have policies regarding which patents can be licensed (core and/or non-core)?
 - i. Legal wants the BU to take ownership of their IP
 - ii. Case by case determination
 - iii. Could license out core technology if it made sense
 - c. Are licensing-out opportunities proactively or passively identified?
 - i. Passively identified
 - ii. Often from suppliers
 - iii. Not proactive
 - 1. No aggressive licensing program
 - a. Not marketing IP
 - b. If approached will respond
 - c. Historically BUs tried to get involved in active licensing but so many BUs wanted a “say” in the licensing decision making that it was very difficult to license-out
 - d. No significant patent monetization efforts outside of product use
 - e. Not aggressively seeking licenses
 - f. Most licenses actually entered into are with their suppliers
 - d. If proactive, do you use a broker? What are the terms of such brokering relationships (e.g., contingent agreements, hourly, other)?
 - i. Brokers are very rarely used
 - e. How is pricing determined? Who approves pricing decisions?
 - i. BU works with a small group to set licensing terms. This group has:
 - 1. 5 people working in the US
 - 2. Part of the research organization
 - 3. Product development and Global Technology—part of Research Organization
 - ii. Works across BUs
- 7) Large Company in the Automotive Industry that is a Wholly Owned Subsidiary of an International Parent Company
 - a. Who makes decisions regarding whether to license or not (e.g., business unit leaders, product leaders, legal, etc.)?
 - i. Business unit leaders make decisions regarding whether to license or not. Sometimes decisions to license-out are used to approach an infringer by having up front negotiations instead of litigation.
 - b. Do you have policies regarding which patents can be licensed (core and/or non-core)?

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- i. Yes, there is a policy regarding patents that can be licensed, and the policy depends on products and the business strategy. For those non-core products that are involved in licensing, the assets that can be licensed are identified by technology group directors and top business managers who look at patent portfolio one patent at a time in an informal review process. During that review, possible infringement or licensing opportunities are identified to let them know what is there and identify possible infringement or licensing opportunities. For products currently not licensed, the company is considering if there is a way to license some of the technology while balancing the potential risks that are involved in licensing.
 - c. Are licensing-out opportunities proactively or passively identified?
 - i. There is licensing based on business strategy. There are robust trademark licensing activities aligned with business strategy. There is no dedicated patent licensing group and there is not a strong emphasis on patent licensing. Patent cross licensing aligned with business strategy does occur. There is a complex licensing agreement structure between subsidiaries and parent company.
 - d. If proactive, do you use a broker? What are the terms of such brokering relationships (e.g., contingent agreements, hourly, other)?
 - i. The company uses a broker when appropriate.
 - e. How is pricing determined? Who approves pricing decisions?
 - i. The Business and legal department determine and approve pricing decisions
- 8) Subsidiary of a Multi-National Industrial Conglomerate
- a. The Company generally does not attempt to license-out its non-core IP assets as a business but certain subsidiaries do have substantial licensing-out activity. The centralized group is involved in licensing-out by providing legal support for contracts on occasion but most licensing-out activity is driven and executed by the subsidiaries.
- 9) International Transaction Processing and Payment-Related Products and Services Company
- a. Licensing-out to generate royalty revenue is increasing at the Company and is driven by the business units. Licensing-out activity is not focused on licensing to potential infringers but is more strategic in nature. The Company used to be more focused on exclusively using its technology or excluding others from using it but is now open to licensing non-core technologies to competitors. The IP legal team has been helping the business units' transition to this new way of looking at IP licensing.
- 10) Fortune 500 Semiconductor Company
- a. Who makes decisions regarding whether to license or not (e.g., business unit leaders, product leaders, legal, etc.)?
 - i. CEO and CTO (Chief Technology Officer or VP of R&D one level down from the CEO)
 - b. Do you have policies regarding which patents can be licensed (core and/or non-core)?
 - i. No licensing program per se, but do cross-license with competitors.
 - ii. Have licenses with joint ventures or joint development programs.
 - iii. Do not usually license with other companies, but will entertain discussions if someone approaches them.
 - c. Are licensing-out opportunities proactively or passively identified?

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- i. Passively identified – products are industry standard. Occasionally consider requests from others for licenses.
 - d. If proactive, do you use a broker? What are the terms of such brokering relationships (e.g., contingent agreements, hourly, other)?
 - i. Passive - don't use a broker
 - e. How is pricing determined? Who approves pricing decisions?
 - i. Consider the size of the revenue base in a cross-license, if the revenue base is the same size, maybe a no-cost cross-license. If revenue base is different between the parties, a royalty may be required.
 - ii. Consideration is led by someone in the IP group with input from the General Counsel and CEO, or CTO who has a lot of experience in the area.
- 11) Fortune 500 Energy Company
 - a. Business unit makes decision with regard to any potential license.
 - b. IP management team advises business unit with regard to potential license (benefits, costs, etc.)
 - c. For most units, licensing opportunities are not proactively sought
- 12) Communications Equipment Company
 - a. Not handled by IP group – handled as a separate Licensing unit
 - i. Former high level IP attorneys within Licensing unit
 - b. Monitor market place to see who is operating in space
 - i. For licensing – get feedback for R&D, and reinvest profit (e.g., 20%) back into R&D
- 13) High Tech Company
 - a. Licensing/Transaction group decides licensing opportunities
 - b. 80% revenue from patent licensing
 - c. Licensing out opportunities identified proactively based on market analysis provided by IP strategy group and approved by business unit
- 14) World-Wide Fortune 500 Drug Company
 - a. Who makes decisions regarding whether to license or not (e.g., business unit leaders, product leaders, legal, etc.)?
 - i. OGC doesn't do this
 - ii. Occasionally Chief IP Counsel has contacted different brokers that are active in the technology space and have found it to be difficult to get them interested in bio-pharma
 - 1. For example, the Company might have a patent covering a particular purification process, but that's not very detectable. This would be difficult to license out.
 - iii. Chief IP Counsel does have a direct report dedicated to supporting business development
 - 1. Previously, multiple attorneys had a hand in this. But there was a lot of inconsistency between attorneys. So they thought it made sense to have a single person supporting deals so that there is consistent guidance and practice.
 - 2. There are maybe 30 or 40 different deals/year
 - iv. They get help from OC for diligence work
- 15) Aerospace and Defense Company

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- 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. The Company is not proactive in licensing. The Company is very passive.
 - b. There are rare circumstances where licensing out or in may be undertaken. Negotiation in such a case will be done by an attorneys(s) in the IP Group and is subject to IP Group management approval.
- 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. 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.

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19) Large Internet Software and Services Company

- a. The Company is primarily interested in promoting innovation and protecting freedom-to-operate so it generally does not attempt to license-out its IP assets as a business to obtain new royalty streams but will routinely license-out to mitigate risk primarily through proactive cross licensing efforts.
- b. The Company participates in the LOT Agreement program which provides a “springing” license if patents under the LOT Agreement are sold.

20) Healthcare Equipment Company

- a. A separate group is responsible for licensing. 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.
- 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.