Contents

About the Author xiii
Acknowledgments xv
Preface xix

CHAPTER 1 Intellectual Property and Corporate Value 1
   Patents 3
      Patent Trends 4
   Who Owns the Most Patents? 4
   Technology Classifications 6
      History of U.S. Patent Applications 6
   Trademarks 8
   Copyrights 10
   Trade Secrets 13
      Evaluating Trade Secrets 14

CHAPTER 2 Licensing Intellectual Property 17
   Forces Behind Licensing 19
   Licensing Motivation 22
   Reasons Companies Engage in Licensing 25

CHAPTER 3 Use of the Twenty-Five Percent Rule in Valuing IP 31
   Introduction 31
   History of the Rule 32
   Explanation of the Rule 33
   Illustration of the Rule 36
   Application of the Rule 39
   Justification for the Rule 41
   Criticisms of the Rule 42
   Empirical Test of the Rule 44
   Royalty Rates 45
   Industry Profits 46
Licensee Profits 46
Royalty Rates and Licensee Profits 48
Successful Licensee Profits 50
Royalty Rates and Successful Licensee Profits 50
Conclusions 51

CHAPTER 4  Royalty Rate Guidelines 53
Royalty Rates for Technology, Third Edition 55
Royalty Rates for Trademarks and Copyrights, Third Edition 57
Royalty Rates for Pharmaceuticals and Biotechnology, Sixth Edition 58

CHAPTER 5  Comparable Licenses 61
Internal Licenses Are Often Self-Serving 62
Relevant Time Period 62
Financial Condition of Both Licensing Parties 63
Relevant Industry Transactions 63
International Transactions 64
Non-Monetary Compensation 64
Exclusivity 64
Package Licenses 65
Comparative Analysis Summarized 65

CHAPTER 6  Technology Royalty Statistics 67
Automotive 67
  Battery Terminals 68
  Transaxles 68
  Manufacturing Technology 69
  Self-Dimmable Rearview Mirrors 70
Chemicals 70
  Flame-Retardant Products 71
  Fuel Reactor Technology 71
  Fuel Technology 72
Communications Equipment and Services 72
  Third-Generation Wireless Technology 73
  Video Patent Pool 74
  Code Division Multiple Access Technology 75
  Wideband Code Division Multiple Access Technology 76
Computer Hardware 76
  Macintosh Enhancement 77
  Computer Architecture 77
  PS/2 Computers 77
  Modem Standards 78
  Modems 79
Computer Software 80
  Apple Operating System 80
  Decision and Data Mining 81
  Windows OS Code 82
Construction 82
  Paving 83
  Polyvinyl Chloride Pipe Products 83
Electronics 84
  DVD/Video Players 84
  Detection Monitoring 85
  Flat Panel Display Technology 85
  Remote Metering 86
Food and Beverage 86
  Mineral Water 86
  Packaging 87
  Eggs 87
Medical Equipment 88
  Breast Cancer Detection 88
  Cancer Screening 89
  Catheter 89
  Digital Scanner 90
  Laser Finger-Perforator Technology 90
  Laser Hair-Removal 91
Pharmaceuticals and Biotechnology 92
Semiconductors 97
  High-Bandwidth Chip Connection Technology 98
  Lightning Resistance 99
  Manufacturing 99
  Pentium II Processor 100
  Power Conversion 101
  Thin Film Ferroelectric Technology 101
  SIMMs 102
Waste Management 102
  Recycling of Asphalt Roofing Debris 103
  Used Oil Recovery 103
  Tire Recycling 104

CHAPTER 7 Trademark and Copyright Royalty Statistics 107
Apparel 107
  Everlast™ 108
  Lotto™ 108
  Disney 108
  Ralph Lauren and Polo 108
Artwork 109
  Textile Patterns 110
  Andretti™ 111
Big League Chew® 111
Dannon/Yocream™ 111
Condiment Names 112
Personal Care 112
Hawaiian Tropic® 113
Tapazole® 114
Vidal Sassoon 114
Publishing 114
Restaurants 116
Ruth's Chris Steakhouse 117
Capital Grille Steakhouse 117
Benihana Japanese Restaurants 118

CHAPTER 8 Profit Differentials and Royalty Rates 119
Business Enterprise Framework 119
Beyond Commodity Earnings 122
Driving Forces Behind Royalty Rates 124
Infringement Damages Analysis 125
The Analytical Approach 125
Hypothetical Example 126
General Profit Margins 128
Generic Pricing 128

CHAPTER 9 Investment Rates of Return and Royalty Rates 133
Basic Principles 133
Investment Rate of Return Royalty Rates 134
Royalty Rates 135
Appropriate Return on Monetary Assets 136
Appropriate Return on Tangible Assets 137
Appropriate Return on Intangible Assets and Intellectual Property 139
Royalty Rate for the Specific Patented Invention 140
Benefits of Investment Rate of Return Analysis 140

CHAPTER 10 Discounted Cash Flow Analysis and Royalty Rates 143
Generic and Mature Commodity Corporate Value 146
New Pharmaprod Corporation Royalty Rate 149
Risk-Adjusted Net Present Value 149
Success Rates 153
Success Rate Adjusted DCF Example 155
Valuation Using the Relief-from-Royalty Method 156
Inputs for the Relief-from-Royalty Method 157
Remaining Life of the Patent Protection 157
Forecast Revenue 158
Royalty Rate 158
Tax Rate 159
Discount Rate 159
Present Value Calculation 160

CHAPTER 11  Court-Awarded Royalty Rates 163
Top Ten 163
Frequency of Rates Awarded 165
Industry Categorizations 166
Considerations Cited by the Courts in Determining a Reasonable Royalty 167
Existing Licenses 167
Importance of Expert Testimony 169
Use of Projections 170
Entire Market Value Rule 170
Federal Circuit Decisions on Royalty Rates 171
Conclusion 173

CHAPTER 12  Litigation Rates Are Higher 175
Comparison of Litigated and Non-Litigated Licenses 175

CHAPTER 13  Royalty Rate Services 181
RoyaltySource®™ 181
RoyaltyStat® 182
Intellectual Property Research Associates (IPRA) 183
Securities and Exchange Commission EDGAR Archives 184

CHAPTER 14  Monitoring License Agreements and Financial Compliance 187
Introduction 187
Breaking Through Old Perceptions 189
What Is a Royalty Audit? 190
Red Flags 190
Auditor Selection 191
How Is the Royalty Audit Done? 192
Desk Audits 193
Drafting a License Agreement to Lower the Likelihood of Mistakes 193
Common Errors 194
Communications Between Licensor and Licensee 195
Conclusion: Benefits of a Sound Monitoring Program 195

Notes 197
Index 205