

## IP Leadership Survey



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- How do you prioritize your IP enforcement budget?
- What's the impact of NPEs to you?
- Where in the world is IP crime most problematic?

### A Report Presented By:

Foley & Lardner LLP

**October 5, 2010**

## **Executive Summary**

While there has been a lot of buzz in recent months surrounding the impact of false marking cases, these lawsuit filings have not fully materialized on a large scale. Furthermore, ever-evolving threats from non-practicing entities (NPEs) continue to be a “thorn in the side” of many corporate IP decision makers, but are impacting certain industries more than others. As one respondent notes:

*The allegations of NPEs are usually so far removed from reality that dealing with NPEs is useless but an unavoidable aspect of today’s patent practice.*

In fact, businesses are taking this potentially tumultuous IP environment in stride, and one respondent says:

*No NPE assertion has been a “business-killer,” they are deemed extortionist and causing management to want to adopt measures to fight back.*

Businesses are primed to “fight back,” as they recognize the strategic business importance of their IP assets by keeping IP budgets surprisingly healthy even during the country’s recent economic woes.

### **Highlights of Foley’s inaugural IP leadership survey include:**

- In December, the U.S. Court of Appeals for the Federal Circuit’s decision in *Forest Group v. Bon Tool* was expected to lead to an increase in the number of false marking lawsuits filed – while that has been true in many cases, the majority of our survey respondents (54%) have not yet felt the impact of this decision. These respondents also had no contact with an NPE in the past year.
- Companies within certain industries continue to be threatened or sued more often by an NPE – including any patent infringement suit filed by an NPE or a false patent marking suit by a false marking plaintiff.
  - For instance, 72% of those identifying themselves as electronics & high tech companies had some contact with an NPE or false marking plaintiff in the last year; and that was the case for 67% of those identifying themselves as consumer products companies.
  - 73% of those in the industrial manufacturing industry had no contact with an NPE or false marking plaintiff in the last year.
- In one example of how companies are taking the much-discussed impact of false marking cases and ever-increasing threats by NPEs in stride, 86% of those surveyed said that, during their company’s annual strategy and budget development, they do not proactively include money and efforts to NPEs, false marking plaintiffs, or other “non-essential” law suits.
  - Since the Federal Circuit’s *Bon Tool* decision in December 2009, fewer than 500 false marking lawsuits have been filed nationwide. One of our respondents summed up the prevailing view in the industry, when asked about the short-and long-term impact of false marking plaintiffs or NPEs on their business:

*There is not a significant impact, but it does consume some time and money which is diverted from other causes.*

- However, our respondents do have thoughts on the steps that need to be taken in the industry to mitigate false marking and NPE threats in the future:

*Joint defense agreements and shared costs between large groups of companies with similar interests.*

*Legislation in each country is indispensable, but international treaty against NPEs is desired in the future.*

- 93% of respondents view the importance of IP in the recent economic downturn either higher or about the same.
  - This sentiment echoes broader industry discussion in recent months that our continued viability, economic output and global competitive standing depends heavily on continued innovation and invention.
  - These results are encouraging as this view echoes across a number of industries, including those that are not typically heavily reliant on IP, and reinforces that many companies recognize that IP – and not just patents, but trade dress, trade secrets, copyrights, and trademarks – is critical for success in the marketplace, even in a down economy.
- Given the recent economic woes that challenged the majority of the country, a surprisingly large number of respondents (46%) cite that the amount of their company's total legal or business budget stayed relatively stagnant in 2010 compared to 2009, while 32% claim their budget did, in fact, decrease in 2010 compared to 2009.
  - In addition, a relatively large number of respondents (22%) said their company's total legal or business budget was actually higher in 2010 compared to 2009.
- A majority of those surveyed (75%) said they are satisfied with their company's understanding of the importance of protecting IP assets and the company's IP budget.
  - As one might expect, those that list their company's budget at the highest IP enforcement budget possible in this survey (\$10 million or more), also have the highest satisfaction with their company's current IP budget.
  - Of those that list their company's budget at less than \$250,000, 50% either are neutral or disapprove of their company's current IP budget.
- The majority of respondents (55%) list China as the part of the world where IP crime is the most problematic for their companies.
- In order to combat IP crime issues in the parts of the world that respondents identified as the most problematic, 75% said that their companies are increasing the strategic filing of patents, copyrights, and/or trademarks. In addition, 28% are adopting different business models such as providing consumers with authentic goods or services at lower costs or via alternative pricing models so that consumers choose their brands instead of a "knockoff" or counterfeit item.

## **VERBATIMS**

Respondents were asked to share their thoughts on the following questions in an open forum for comment and feedback. The following represent select verbatims received from survey respondents.

### **What do you believe to be the short-and long-term impact of NPEs (or false marking plaintiffs) on your business?**

- *None for us directly, but having NPEs use patents as weapons that hold practicing entities hostage makes the patent system look less like an innovation encouraging system as the Constitution seems to intend and instead makes the patent system more like a money making tool. Not that making money isn't a goal for innovators, but with practicing entities using patents you get tools and inventions and good things plus the innovators get paid.*
- *Stifle innovation in the long-term. Tie-up resources in the short-term.*
- *Drain on time and resources. The allegations of NPEs are usually so far removed from reality that dealing with NPEs is useless but an unavoidable aspect of today's patent practice.*
- *Short term, they are requiring us to look hard at how we do things, and long term implementing process changes or new processes can be put in place to put us in a better position to defend potential attacks.*
- *Companies that actually manufacture products and bring innovations to the market are in the worst of both worlds....the qui tam plaintiffs made it far too risky to mark products with patent numbers, but if you don't mark, you can't get past damages. Non-practicing entities, on the other hand, can go back a full 6 years for past damages and don't have to worry about the risk of marking. Makes no sense.*
- *Trolls are a persistent drain on company resources, both financially and in terms of distractions on personnel who should be engaged in more productive work.*
- *They are causing the business to have to adjust sales and revenue models for certain product lines. No NPE assertion has been a "business-killer;" they are deemed extortionist and causing management to want to adopt measures to fight back.*
- *For years, such kinds of IP proprietors tried in IP fields, but in many cases they did not have success in the long-term. I expect US lawyers to find reasonable solutions or advice for their clients early on.*

## VERBATIMS (CONTINUED)

### What steps need to be taken in the industry to mitigate threats from NPEs (or false marking plaintiffs) in the future (outside of internal strategies, for example, legislation, court interventions, etc.)?

- *Joint defense agreements and shared costs between large groups of companies with similar interests.*
- *Legal: Revise jurisdictional rules to avoid forum shopping. Stronger guidance/regulation on what constitutes a reasonable royalty for NPEs. Stronger presumption against injunctions and in favor of damages/royalties. Industry: Broader cross-licenses; establish groups to buy up and license patents.*
- *Legislation in each country is indispensable, but international treaty against NPEs is desired in the future.*
- *Court cases for the recent Reexamination or Declaratory Judgment would show a good guidance. Unfortunately, some companies which lack knowledge of how to handle NPEs might take a payment settlement with NPEs. Some associations respectively covering industries or products could take an advising function to such companies. This will improve the situation, especially for foreign companies.*
- *Companies need to do a better job monitoring how they use IP and how others, including competitors, investors, and others, use IP. The industry needs to continue to pressure Congress and the USPTO to fund and support the proper resources so that the USPTO issues higher quality patents.*
- *Legislative changes to limit past damages to non-practicing entities until there is actual notice of an alleged infringement.*
- *Limit the number of patents that NPEs can assert in litigation. No one wants to prevent small inventors from being able to assert a handful of key patents against the big corporations if the small inventor really invented something valuable. However, NPEs that do nothing more than amass large patent portfolios in a certain field knowing that few corporations can afford to litigate and strike them down (even if they are all vulnerable) helps no one except the NPE.*
- *1. Mandatory stays of litigation in the event of re-examination of NPE patents. 2. Mandatory Markman hearings/rulings at the beginning of matter, where infringement disputes and claim interpretation is apparent; and mandatory stay of discovery while awaiting Markman. 3. Query: mandatory re-examination? 4. Institute a system of plaintiff-patentee paying defendant's attorney fees in the event that delayed Markman rulings vindicate the defendant's position.*

## 2010 IP LEADERSHIP SURVEY RESULTS

Respondents were asked to complete a short questionnaire designed to provide added perspective on the myriad of issues facing corporate IP decision makers – including threats from non-practicing entities and false marking plaintiffs and the rise in IP crimes. A full overview of the survey methodology can be found at the end of this report.

1. What are your company's primary sources of IP protection? (check all that apply)				
Responses	Count	%	Percentage of total respondents	
Patents	59	79.73%		
Trademarks	47	63.51%		
Copyrights	23	31.08%		
Trade Secrets	32	43.24%		
Other (please specify)	3	4.05%		
<b>Total Responses</b>	<b>164</b>		<b>20%</b>	<b>40%</b> <b>60%</b> <b>80%</b> <b>100%</b>

- Patents rank as the most popular sources of IP protection (80%) among respondents, while trademarks are a close second (64%), then trade secrets (43%) and copyrights (31%).

2. How did you view the relative importance of IP in the recent economic downturn?				
Responses	Count	%	Percentage of total respondents	
Higher	38	52.78%		
Lower	5	6.94%		
About the same	29	40.28%		
<b>Total Responses</b>	<b>72</b>		<b>20%</b>	<b>40%</b> <b>60%</b> <b>80%</b> <b>100%</b>

- Only 7% of respondents view IP's relative importance as lower in the recent economic downturn.
- 93% of respondents view the relative importance of IP in the recent economic downturn either higher or about the same.
  - This sentiment echoes broader industry discussion in recent months that our continued viability, economic output and global competitive standing depends heavily on continued innovation and invention.
  - These results are encouraging as this view echoes across a number of industries, including those that are not typically heavily reliant on IP, and reinforces that many companies recognize that IP – and not just patents, but trade dress, trade secrets, copyrights, and trademarks – is critical for success in the marketplace, even in a down economy.

**3. How has the amount of your total legal or business budget changed in 2010 compared to 2009?**

Responses	Count	%	Percentage of total respondents
Higher	16	22.22%	
Lower	23	31.94%	
About the same	33	45.83%	
<b>Total Responses</b>	<b>72</b>		<b>20%   40%   60%   80%   100%</b>

- Given the recent economic woes that challenged the majority of the country, a surprisingly large number of respondents (46%) cite that the amount of their company's total legal or business budget stayed relatively stagnant in 2010 compared to 2009, while 32% claim their budget did, in fact, decrease in 2010 compared to 2009.
- In addition, a relatively large number of respondents (22%) said their company's total legal or business budget was actually higher in 2010 compared to 2009.

**4. How strongly do you agree or disagree with the following statement?: "The management at my company understands the importance of protecting IP assets and approves of an IP budget compatible with this understanding."**

Responses	Count	%	Percentage of total respondents
Strongly agree	18	25.00%	
Agree	36	50.00%	
Neutral	13	18.06%	
Disagree	5	6.94%	
Strongly disagree	0	0%	
<b>Total Responses</b>	<b>72</b>		<b>20%   40%   60%   80%   100%</b>

- A majority of those surveyed (75%) said they are satisfied with their company's understanding of the importance of protecting IP assets and the company's IP budget.
- As one might expect, those that list their company's budget at the highest IP enforcement budget possible in this survey (\$10 million or more), also have the highest satisfaction with their company's IP budget.
- Of those that list their company's budget at less than \$250,000, 50% either are neutral or disapprove of their company's current IP budget.

5. How do you prioritize various attributes of your company's IP enforcement budget? (1 being most important and 6 being least important)							
Responses	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Weighted Rank (Score)
Type of products/services	23	17	11	10	8	1	1 (314)
Geographical markets	20	14	11	8	6	11	2 (281)
Industries/sectors	9	16	12	11	10	12	3 (247)
Potential damages	9	11	9	15	15	11	4 (231)
Type of enforcement measures	2	4	20	15	14	15	5 (200)
Outside legal counsel fees	7	8	7	11	17	20	6 (197)
<b>Total Responses</b>							<b>70</b>

- 29% of respondents rank outside legal counsel fees as the least important attribute in prioritizing their company's IP enforcement budget, after the type of the company's products/services, geographical markets, industries/sectors, potential damages, and the type of enforcement measures.
  - This result isn't particularly surprising, as we would expect very large companies with in-house IP counsel to rank outside legal counsel fees as least important when prioritizing an IP enforcement budget.
- 33% of respondents rank type of products/services as most important when it comes to prioritizing various attributes of their company's IP enforcement budget, while 29% of those surveyed list geographical markets as the most important attribute.

**6. Have you or your company been threatened or sued by an NPE (non-practicing entities) - including any patent infringement suit filed by an NPE or a false patent marking suit by a false marking plaintiff - in the last year?**

Responses	Count	%	Percentage of total respondents
Threatened and sued	12	17.39%	
Threatened only (no lawsuits filed to date)	18	26.09%	
Sued without prior notice	2	2.90%	
No contact with NPEs or false marking plaintiffs	37	53.62%	
<b>Total Responses</b>	<b>69</b>		<b>20%   40%   60%   80%   100%</b>

- In December, the Federal Circuit's decision in *Forest Group v. Bon Tool* was expected to lead to an increase in the number of false marking lawsuits filed – while that has been true in many cases, the majority of our survey respondents (54%) have not yet felt the impact of this decision. These respondents also had no contact with an NPE in the past year.
- Companies within certain industries continue to be threatened or sued more often by an NPE – including any patent infringement suit filed by an NPE or a false patent marking suit by a false marking plaintiff.
  - For instance, 72% of those identifying themselves as electronics & high tech companies had some contact with an NPE or false marking plaintiff in the last year; and that was the case for 67% of those identifying themselves as consumer products companies.
  - 73% of those in the industrial manufacturing industry had no contact with an NPE or false marking plaintiff in the last year.
- 26% of survey respondents have been threatened by an NPE or a false marking plaintiff, but no lawsuit had been filed at the time of this survey, while 20% of those surveyed have been threatened and sued, and sued without prior notice in the last year by an NPE or a false marking plaintiff.
- The amount of a company's total legal or business budget devoted to IP procurement, maintenance, and/or enforcement (including litigation) correlates with the amount of contact the company has had with NPEs and/or false marking plaintiffs:
  - 87% of respondents with an IP budget less than \$250,000 claim they had no contact with NPEs or false marking plaintiffs in the last year – the highest percentage in our survey.
  - 58% of respondents with an IP budget of \$250,000 or more but less than \$1 million have been threatened and sued, threatened only and sued without prior notice by an NPE or false marking plaintiff in the last year; while that rang true for:
    - 54% of those with a budget of \$1 million or more;
    - 67% with a budget of \$5 million or more but less than \$10 million;
    - and 100% with a budget of \$10 million or more.

7. How many times have you been sued by an NPE (or false marking plaintiff) in the last year?				
Responses	Count	%	Percentage of total respondents	
Between 1-4	11	84.62%		
Between 5-10	2	15.38%		
More than 10	0	0%		
Other (please specify)	0	0%		
<b>Total Responses</b>	<b>13</b>		<b>20%</b>	<b>40%</b>   <b>60%</b>   <b>80%</b>   <b>100%</b>

(Note that this question was only addressed to those respondents who have had some kind of contact with NPEs or a false marking plaintiff in the last year)

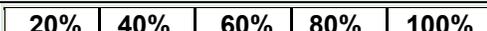
- Of those respondents who have been sued by an NPE or false marking plaintiff in the last year, 85% have been sued between 1 and 4 times.

8. If threatened or sued by an NPE, which strategy have you found to be the most effective?				
Responses	Count	%	Percentage of total respondents	
Initiating reexamination proceedings against the asserted patent(s) in the USPTO	1	2.94%		
Seeking a declaratory judgment of invalidity in a favorable forum	1	2.94%		
Entering into joint defense agreement with other possible defendant(s)	3	8.82%		
Seeking a license or cross-license	2	5.88%		
Attempting to settle quickly by offering monetary amount far less than cost to litigate	4	11.76%		
Using some other strategy or a combination of the above	23	67.65%		
Other (please specify)	0	0%		
<b>Total Responses</b>	<b>34</b>		<b>20%</b>	<b>40%</b>   <b>60%</b>   <b>80%</b>   <b>100%</b>

(Note that this question was only addressed to those respondents who have had some kind of contact with NPEs or false marking plaintiffs in the last year)

- 68% of respondents have found using a combination of tactics, including initiating reexamination proceedings against the asserted patent(s) in the USPTO; seeking a declaratory judgment of invalidity in a favorable forum; entering into a joint defense agreement with other possible defendant(s); seeking a license or cross-license; and attempting to settle quickly by offering monetary amount far less than the cost to litigate, is the most effective strategy if threatened or sued by an NPE.
- Those surveyed believe that attempting to settle quickly by offering a monetary amount far less than the cost to litigate is the second most effective strategy if threatened or sued by an NPE.

**9. If threatened or sued by a false marking plaintiff in a false patent marking suit, which strategy have you found to be the most effective?**

Responses	Count	%	Percentage of total respondents
File a procedural motion to dismiss, transfer, and/or stay	3	15.79%	
Fight the case on the merits and move (or plan to move) for early summary judgment	2	10.53%	
Seek to involve the Government	0	0%	
Attempting to settle quickly by offering monetary amount far less than cost to litigate	0	0%	
Using some other strategy or a combination of the above	14	73.68%	
<b>Total Responses</b>	<b>19</b>		

(Note that this question was only addressed to those respondents who have had some kind of contact with NPEs or false marking plaintiff in the last year)

- Similar to those that were threatened or sued by an NPE in the last year, 74% of respondents believe implementing a combination of tactics including, filing a procedural motion to dismiss, transfer, and/or stay; fighting the case on the merits and move (or plan to move) for early summary judgment; seeking to involve the government; and attempting to settle quickly by offering a monetary amount far less than the cost to litigate, is the most effective strategy if threatened or sued by a false marking plaintiff.

**10. During your annual strategy and budget development, do you proactively include money and efforts to NPEs, false marking plaintiffs, or other "non-essential" law suits?**

Responses	Count	%	Percentage of total respondents
Yes	10	14.49%	
No	59	85.51%	
<b>Total Responses</b>	<b>69</b>		

- In one example of how companies are taking the much-discussed impact of false marking cases and ever-increasing threats by NPEs in stride, 86% of those surveyed said that, during their company's annual strategy and budget development, they do not proactively include money and efforts to NPEs, false marking plaintiffs, or other "non-essential" law suits.
  - Since the Federal Circuit's *Bon Tool* decision in December 2009, fewer than 500 false marking lawsuits have been filed nationwide. One of our respondents summed up the prevailing view in the industry, when asked about the short-and long-term impact of false marking plaintiffs or NPEs on their business:

*There is not a significant impact, but it does consume some time and money which is diverted from other causes.*

11. In what part of the world is the issue of IP crime most problematic for your company? (1 being most problematic and 5 being least problematic)						
Responses	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Weighted Rank (Score)
China	36	19	7	1	2	1 (281)
United States	26	14	6	2	17	2 (225)
India	1	18	24	17	5	3 (188)
Russia	2	10	17	19	17	4 (156)
Brazil	0	4	11	26	24	5 (125)
<b>Total Responses</b>						<b>65</b>

- The majority of respondents (55%) list China as the part of the world where IP crime is the most problematic for their companies.
- In a somewhat surprising result, 29% of respondents listed Russia as the part of the world where IP crime is the *second least* problematic for their companies.
  - This result is fairly industry specific, however, as counterfeit issues, particularly in the area of electronic media (CDs, DVDs, etc.), continue to be a problem in Russia. Though the country has increased its enforcement efforts in recent years, there is still work to be done.
- 37% of respondents list Brazil as the part of the world where IP crime is the *least problematic*.
  - This result could be a reflection of last year's announcement by a World Trade Organization body that in recent years Brazil has been increasing its implementation and enforcement of international intellectual property rules.
  - However, the result could also highlight that Latin America's largest economy has experienced a very recent boom and the impact of IP crime in the country has yet to be seen.

12. In the region(s) you identified to be the most problematic in terms of IP crime for your company, is your company (check all that apply):								
Responses	Count	%	Percentage of total respondents					
Increasing the strategic filing of patents, copyrights, and/or trademarks	48	75.00%						
Strengthening its relationships with local and federal governments	13	20.31%						
Adopting different business models - such as providing consumers with authentic goods or services at lower costs or via alternative pricing models so that consumers choose your brand instead of a "knockoff" or counterfeit item	18	28.13%						
Other (please specify)	10	15.63%						
<b>Total Responses</b>	<b>89</b>		<table border="1"> <tr> <td>20%</td> <td>40%</td> <td>60%</td> <td>80%</td> <td>100%</td> </tr> </table>	20%	40%	60%	80%	100%
20%	40%	60%	80%	100%				

- In order to combat IP crime issues in the parts of the world that respondents identified as the most problematic, 75% said that their companies are increasing the strategic filing of patents, copyrights, and/or trademarks. In addition, 28% are adopting different business models such as providing consumers with authentic goods or services at lower costs or via alternative pricing models so that consumers choose their brands instead of a “knockoff” or counterfeit item.
- While a majority of respondents are increasing the strategic filing of patents, copyrights, and/or trademarks to combat IP crime in problematic countries, 15% of our respondents offered their own solutions:
  - *Rapid changes in product offerings to keep “knock off artists” busy chasing us*
  - *Finding a good native business counterpart such as joint-venture or some to create low cost supply chain in the target country*
  - *Dealing with them on a one off basis*
  - *Implementing anti-counterfeiting software checks, distributing know-how (trade secrets) across component supplier base so that no component supplier and no manufacturer has access to all*
  - *Monitoring activity in these countries*

13. What types of products do you think pose greater financial drains by IP crimes?				
Responses	Count	%	Percentage of total respondents	
Volume-based, commodity products	32	47.06%		
Premium goods	16	23.53%		
High-end, luxury goods	16	23.53%		
Other (please specify)	4	5.88%		
<b>Total Responses</b>	<b>68</b>		<b>20%</b>	<b>40%</b>
			<b>60%</b>	<b>80%</b>
			<b>100%</b>	

- 47% of respondents believe that volume-based, commodity products pose greater financial drains by IP crimes, while 24% list premium goods and another 24% list high-end, luxury goods.
- For those responding “other” to this question, they list “consumption articles, optional supplies;” “mid-tech industrial products;” “medicine;” and “electronic goods” as products posing greater financial drains by IP crimes.

## METHODOLOGY

In August of 2010, Foley & Lardner LLP distributed a survey to a group of executives, advisors, and outside consultants in the intellectual property industry. Seventy-five people participated.

The survey coincides with Foley's 2010 IP Conference, "Winning a Game of Inches: Gaining Momentum Through IP," held in New York on October 5, and is attended by many of the respondents completing the survey.

Due to rounding, all percentages used in all questions may not add up to 100 percent.

For those that identified their region, fifty-eight respondents are from the United States, while seven respondents are from Japan; two are from England; one is from Canada; and one is from Europe.

Responses by Industry	Count	%	Percentage of total respondents
Consumer products	10	13.89%	
Retail	2	1.39%	
Electronics & high tech	14	15.28%	
Industrial manufacturing	12	15.28%	
Healthcare	3	4.17%	
Financial services	3	4.17%	
Academia	4	5.56%	
Medical Devices	5	6.94%	
Legal	4	5.56%	
Telecommunication	1	1.39%	
Non-profit	1	1.39%	
Pharmaceutical/biotech/chemical	10	13.89%	
Other (please specify)	3	4.17%	
<b>Total Responses</b>	<b>72</b>		