



UNIVERSITY of NEW HAMPSHIRE

Use of Patents in Securing Financing: A Survey of New England Firms

Summary of Results

PURPOSE OF SURVEY

The purpose of the survey was to assess the extent to which *small and medium-sized firms in New England use intellectual property assets to secure financing to manage their operations.*

Although survey questions focused primarily on patents, some also pertained to other intellectual assets such as copyrights, trademarks and trade secrets.

RESEARCH METHODOLOGY

Surveys were mailed to 694 New England firms over the period of November 9, 2006 through April 24, 2007. Mailing lists came from the membership rosters of Mass High Tech and the New Hampshire High Technology Council. Additional companies were selected using public information posted on the websites of the NH Biotech Council, e-coast and NH Biolink. Companies were selected based on the likelihood of being involved in developing and/or using patents. Targeted industries included high tech, biotech and manufacturing firms. Fifty-one companies responded, yielding a response rate of 7.6%. Participation was voluntary and all responses were strictly confidential.

COMPANY DEMOGRAPHICS

- 51% of participating companies were located in Massachusetts; 23% in New Hampshire, 10% from Connecticut and 8% from Vermont (although at least one firm's physical location is in New Hampshire). No responses were received from Maine or Rhode Island.
- 21% of firms have been in existence for 5 years or less. 35% for 6-9 years; 20% for 10-19 years; 22% for 20-49 years; and one company has been operating for more than 100 years.
- 33% of the companies reported gross sales volume as less than \$1 million; 33% reported \$1-4.9 million; 14% reported \$5 – 9.9 million; 8% reported \$10-\$19.9 million; 6% reported \$20-49.9 million; 2% reported \$50-75 million and 2% reported sales volume as more than \$75 million.
- 62% of firms have fewer than 20 employees; 20% have 20-50 employees; 10% have 51-100 employees; 4% have 101-200 employees and 4% have more than 200 employees.
- Of the industries represented in the responses, 48% were involved in manufacturing; 29% were software firms; and 23% were involved in other industries.

PATENT ACTIVITY

- 78% of the companies surveyed either held title to patent(s) or had patent application(s) or provisional patent application(s) pending at the time the survey was taken.
- 75% developed patent(s) in-house, while 17% licensed patents from others. 4% acquired patent(s) through either a merger or acquisition and 4% purchased patent(s).
- 43% of the companies surveyed own between 1-5 patents; 21% own between 6-25 patents; and 6% owned more than 25 patents.
- 37% of respondents own utility patents and 16% own design patents.
- At the time of the survey, 25% of the companies had divisional patent application(s) in the pipeline and 25% had continuations in the pipeline.

Enterprise Integration Research Center

McConnell Hall 15 College Road Durham, New Hampshire 03824-3593 603-862-3885 603-862-3383 fax

- In a typical year, 49% of the companies surveyed reported filing between 1-5 patents with the USPTO. 12% reported no filings and 6% reported filing 6-10 patent applications.
- Over the past three years, 21% reported filing between 1-5 patent applications with the USPTO; 5% reported filing between 6-10 patents; 5% filed between 11-50 patents and 3% filed no patent applications.
- In a typical year, 16% of respondents reported filing between 1-5 international (PCT) patent applications, 14% filed no international patent applications, and 2% filed between 6-10 applications.
- Over the past three years, 13% reported filing no international (PCT) patent applications; 12% filed fewer than 6 applications; 4% filed between 6-10 applications and 3% filed between 11-50 international applications.

IP FINANCING

- 27% of surveyed companies plan to use patents to improve new or existing products. The next highest group, at 8%, plan to sell its patents. 3% intend to license out; 2% plan to use patents to create joint ventures; and 2% are not sure.
- 57% of respondents reported having never sold its patent(s) to others. Only 6% had sold between 1-5 patents.
- 49% have never licensed its patents to others, while 16% had licensed between 1-6 patents. One company licensed between 26-100 patents to others.
- 47% of the companies reported never buying a patent license from others. 12% had licensed between 1-5 patents and 6% licensed between 6-10 patents from others.
- 18% of the companies surveyed said they had used patents as collateral to secure financing, while 61% had not.
- 47% of respondents said they had not used patents as collateral to obtain equity financing; 6% indicated using it to obtain less than \$500,000; 4% between \$1-3 million. One company reported obtaining more than \$10 million in equity financing.
- 49% of the companies reported they had not used patents to obtain debt financing; 8% reported obtaining between \$1-3 million. One company reported obtaining more than \$10 million in debt financing.
- 22% of the companies planned to use patents as collateral in the future while 29% did not. 14% of the respondents were not sure.
- Respondents were asked to rank the importance of patents to the company. Creating competitive advantage received the highest ranking, followed in descending order by seeking partnerships/collaborators; mergers and acquisitions; marketing and sales; obtaining financing; engaging in international business, and recruiting personnel.

IP MANAGEMENT

- The most common way companies responding to this survey protect intellectual property assets is to use employee non-disclosure or confidentiality agreements, followed closely by hiring outside legal counsel to oversee IP assets. A significant number also choose not to file for patent protection in order to keep intellectual property secret.

CONCLUSION

A survey of small and medium sized high-tech firms in the New England region on their use of patents for securing financing reveals that the majority of the firms with sales less than \$20 million had little or no experience in licensing patents to and from others. For a majority of these small firms, patents are perceived as a tool to enhance competitive advantage and primarily used for developing new products and/or improve existing products. For smaller firms, the use of patents as collateral to secure financing has not been a popular practice, though more firms are likely to do so in the future. A major obstacle to using IP as collateral is the inability of many venture capital firms to assess the commercial value of patents.