An Empirical Analysis of Bargaining Power in Licensing Contract Terms

Speaker: Dr Alan Kwan, Faculty of Business & Economics, HKU
Discussant: Thomas Cheng, Faculty of Law, HKU

Abstract: This paper studies a new, large sample of intellectual property licensing agreements sourced from filings by public corporations under the lens of a surplus-bargaining framework. This framework motivates several new empirical findings on the determinants of royalty rates. We find, expectedly, that licensors command premium royalty rates for exclusivity, particularly in competitive industries, and for exchange of know-how. Licensors with differentiated technology and high market power charge higher royalty rates, while larger-than-rival licensees pay lower rates. Finally, using this framework, we study how the nature of disclosure by the public firms affects transaction value. Firms transact at lower royalty rates when they redact contracts, preserving pricing power for future negotiations. This suggests practitioners modeling fair value based on publicly known comparables in transfer pricing and litigation contexts are generally valuing royalties too high, impacting billions of dollars of transaction value annually.

So Sue Me! Re-discovery of Patent Value through Litigation

Speaker: Dr Po-Hsuan Hsu, Faculty of Business & Economics, HKU
Discussant: Dr Ryan Whalen, Faculty of Law, HKU

Abstract: This paper presents evidence of net positive effects associated with patent litigation, both around the filing of lawsuits and in the following year. Using patent lawsuit data from 2000 to 2014, we find that firms with litigated patents and their adversaries experience significantly positive stock returns ranging between 0.33% and 1.18% in the 10 or 24 days following litigation announcements. In addition, a portfolio consisting of firms involved in patent lawsuits generates risk-adjusted alphas between 0.52% to 0.75% per month in the following year. The excess return on this portfolio is larger among firms with greater information delay. Further analysis on firms’ future profitability and their competitive landscape suggests that our finding of a positive, yet undervalued, effect of patent litigation on stock prices could be explained by investors’ underreaction to its potential associated benefits.

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