SFIA Legal Task Force Series: Intellectual Property Litigation & Valuation Webinar

SFIA Host: Jonathan Michaels, SFIA
Webinar Moderator: Bruce Cranner, Frilot, LLC
Presenters:
• Scott Baxendale, Miller Matthias & Hull
• Jim Cleland, Brinks Hofer Gilson & Lione
• Brian Buss, Nevium Intellectual Property Solutions
• Doug Bania, Nevium Intellectual Property Solutions
• Bill Sells, SFIA
Today’s Agenda:

1. Patent Trolls: *Shining a Light Under the Bridge*

2. Trends & Tools: *Combating Patent Litigation Attacks*

3. IP Analysis: *Exploiting IP to Build Value*

4. IP Rights: *Washington Perspective*

5. Question & Answers

Questions Can Either Be Submitted Via the GoToWebinar Toolbar or emailed to bcranner@frilot.com
Patent Trolls: Shining a Light Under the Bridge

By: Scott E. Baxendale

www.millermatthiashull.com
Patent Trolls

Patent Ownership

• Right to exclude others from making, using, selling or importing invention
• No affirmative right or obligation to practice the invention
• License and sell patents
• Can record patent assignment documents, but not required

Have a question? Submit them to bcranner@frilot.com
Who/What are “Patent Trolls?”

- Entities that enforce patents against multiple alleged infringers in an unduly aggressive or opportunistic manner
- No intention to manufacture or market the patented product
- Non-Practicing Entities (NPE)
- Patent Assertion Entities (PAE)

Have a question? Submit them to bcranner@frilot.com
Patent Troll Strategies

- Acquire patents from individual inventors, established businesses, bankruptcy sales (many IT-related)
- Allow markets of potentially infringing products to develop
- Initially threaten or sue vulnerable parties
- Go after larger players after setting settlement precedent

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Patent Troll Strategies (cont.)

- Low cost to sue/high cost to defend
- Few counterclaims
- Forum selection (E.D. Tex.)
- High standard for prevailing defendant to receive attorney fees
- Often rely on ambiguity in the scope of the patented invention
President Obama Weighs In (6/4/13)

• Executive Actions
  – Examiner training on improving patent claim clarity
  – Require updating PTO ownership information (“ultimate parent entity”)
  – Resources for downstream users
  – Increase work with patent stakeholders
  – Strengthen enforcement of ITC exclusion orders

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President Obama Weighs In (6/4/13)

• Legislative Recommendations
  – Increase demand letter transparency
  – Update PTO ownership information or face court sanctions
  – Allow challenges of IT patents at PTO
  – End user tools to slow down litigation
  – Tighten ITC standard for injunctions
  – More discretion in awarding fees
  – ITC flexibility in hiring ALJs

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Patent Trolls

America Invents Act (AIA) (2011)

• Third-party challenges
  – Pre-issuance submissions (pending)
  – Post-grant review (< 9 mos. after issue)
  – Inter partes review (> 9 mos. after issue)

• Joinder limitations
  – Cannot join defendants base solely on infringing the same patent
  – Must have common facts
Patent Trolls

SHIELD Act (H.R. 845)

• Full litigation costs and attorney fees to prevailing defendant

• Only if patent owner is not:
  – Inventor, co-inventor, original assignee
  – Making substantial investment in exploiting through production or sale
  – University or technology transfer org.

• Patent owner required to post bond

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Patent Abuse Reduction Act (S. 1013)

• ID anyone with direct financial interest in outcome in the pleadings
• Presume award of attorney fees with exceptions
• Pleadings must link claim terms to functionality of accused product
• Discovery only after claims construed
• Statutory limits on discovery
Patent Trolls


• Facilitate or encourage settlement
• Reduce discovery
• Pleading and initial disclosure requirements
• Manufacturer intervention in suits against customers
• Delete “exceptional case” requirement for attorney fees
• Recordation of Real Party in Interest

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CAFC Chief Judge Randall Rader

• Concerns with clogging the court system
• Slowing development and increasing business costs
• § 285 gives judges authority to shift cost burden, but system bias against fee shifting exists
Vermont Consumer Protection Act

• Requirements on demand letters
  – Detailed information on accused product
  – Reasonable time to pay licensing fee
• AG given authority to sue accuser
• Evidence of bad faith assertions
  – Inventors, universities and practicing entities excluded
• MPHJ Technology Investments LLC

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Trends & Tools: Combating Litigation Attacks

By: Jim Cleland

www.brinkshofer.com
• **Bad News**
  – Corporate defendants are under attack
  – Lawsuits initiated by NPE’s now account for about 62% of all patent infringement actions in the U.S.

• **Good News**
  – Several trends that favor defendants
  – Tools are available to help corporate defendants fight back
• Easier to invalidate a patent
  – Supreme Court (KSR) relaxed requirements to combine multiple prior art references together to invalidate an asserted patent
• Restricting eligible patentable subject matter
  – Supreme Court (*Bilski*) restricted patent criteria for business method patents
  – Business method patents a favorite of the NPEs
• More difficult to obtain an injunction
  – Plaintiff patentee almost always received injunction against defendant found to infringe
  – Huge leverage point for patentees
  – Supreme Court (eBay) brought patent cases back to traditional four-factor injunction test
• Limiting scope of patent damages
  – Federal Circuit has clamped down on damages not specifically tied to patented features
  – Federal Circuit eliminated the 25% rule
  – District courts are excluding damages expert testimony at unprecedented rates
• Increasing the burden to prove willfulness
  – Federal Circuit made it easier to avoid finding of willful infringement even without opinion of counsel
  – Federal Circuit raised standard to prove willful infringement
    • Objective component – recklessness
    • Subjective component - intent
• **Reexamination**
  – Ex parte reexamination
    • Traditional practice
  – Inter partes reexamination
    • Revamped with AIA, increasingly attractive option
  – Courts likely to stay patent infringement cases with early motions to stay for reexamination
Tools to Fight Back

• Early motion practice on the pleadings
  – Courts increasingly receptive to early 12(b)(6) motion practice to dismiss vague complaints
  – Warning signs
    • Accused products not sufficiently identified
    • Vague theories of indirect infringement

Have a question? Submit them to bcranner@frilot.com
Tools to Fight Back

• Use of model patent scheduling orders
  – Require early infringement disclosures
  – Early claim construction
  – Faster to summary judgment

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Tools to Fight Back

• **Early dispositive motion practice**
  – Courts more willing to consider early dispositive motions
  – Particularly for issues not requiring claim construction
  – Put patentee on defensive immediately with significant downside risk

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Tools to Fight Back

• **Exclude overreaching damages theories**
  – Motions to exclude damages experts
  – Motions to restrict damages to patented features

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IP Analysis
Exploiting IP to Build Value

By: Doug Bania & Brian Buss

www.nevium.com
Complementary Views of IP

IP Development and Ownership

IP Business Management

IP Legal Management

Our View: A Financial and Economic Contribution of IP

Our Goal: Exploit IP to Build Value

Have a question? Submit them to bcranner@frilot.com
Non-tangible assets that come with formal and explicit government protections.  
- Patents  
- Trademarks  
- Copyrights

Assets that have no physical being, apart from a writing which evidences their existence  
- Membership, customer lists  
- Distribution networks  
- Procedures and practices

Intellectual Properties
Intangible Assets

Trade Secrets
Rights of Publicity

Have a question? Submit them to bcranner@frilot.com
Multiple assets, working together to generate economic benefit

**Marketing Assets**
- Trademarks
- Copyrights
- Publicity Rights
- Domain Names
- Customer Lists
- Relationships
- Practices / Procedures

**Tech Assets**
- Patents
- Copyrights
- Trade Secrets
- Know-how / Research
- Test Results
- Relationships
- Practices / Procedures

**Graph**
- Total IP Contribution
  - Patents
  - Trademarks
- Time

Have a question? Submit them to bcranner@frilot.com
Valuation happens every day, only some valuations involve a formal analysis

Value = Present Value of Future Benefits

\[ PV = \sum_{t=1}^{n} \frac{FB_t}{(1 + DR)^t} \]

Fair Market Value = price at which unrelated parties would transact

IP Valuation requires one more step compared to Business Valuation

Have a question? Submit them to bcranner@frilot.com
## How IP Contributes to Value

<table>
<thead>
<tr>
<th>Description</th>
<th>Economic Benefits</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Monopoly</strong></td>
<td>Barrier to entry, exclude others from using</td>
<td>• Pricing power</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Greater profit margins</td>
</tr>
<tr>
<td><strong>Litigation</strong></td>
<td>Seek damages if others use</td>
<td>• Litigation award (PV of award less costs)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Threat of litigation (force “Monopoly” or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“Permission”)</td>
</tr>
<tr>
<td><strong>Permission</strong></td>
<td>Ability to be compensated when others use</td>
<td>• Value of license (PV of royalties+fees – costs)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Value if sold</td>
</tr>
<tr>
<td><strong>Promotion</strong></td>
<td>Signals innovation, uniqueness, source of origin to</td>
<td>• Additional sales</td>
</tr>
<tr>
<td></td>
<td>consumers</td>
<td>• Reduced marketing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Incremental margin</td>
</tr>
</tbody>
</table>

Have a question? Submit them to bcranner@frilot.com
Why Focus on IP?

Value = \frac{\text{Future Benefits}}{\text{Discount Factor}}

\[ PV = \sum_{t=1}^{n} \frac{FB_t}{(1 + DR)^t} \]

To Increase Value

FB

• Incremental profit margins
• Licensing income
• Cash for unused assets
• Policing infringement

DR

• Higher return on innovation
• Contractual income
• Creating barriers to entry

IP as a Key Tool to Increase Value

Have a question? Submit them to bcranner@frilot.com
IP Valuation

Apportionment: *IP depends on other assets and resources in order to generate economic benefits*

The Key in IP Analysis: Apportion Profits to the IP

\[
\text{Value of the IP Asset} = \text{Forecast Profits} \times \text{Apportionment} \times \text{Discount Factor}
\]

Have a question? Submit them to bcranner@frilot.com
Building Value with IP

Have a question? Submit them to bcranner@frilot.com
Building Value with IP

IAM in the Product Development Process

Invest → Innovate → Launch Products → Successful Products → Follow-on Products

- Add Technology
- Add TMs, Brands & Endorsements

Shelved → Non-successes → Extension

**IP Monetization**
Sell / License Out & Announce

Economic Benefit ($\pi$)

Re-invest

Have a question? Submit them to bcranner@frilot.com
Benefits of IAM

IAM & Monetization
Impact of IP Announcements on Share Price

### Abnormal Share Price Return Following Announcement *

<table>
<thead>
<tr>
<th>IP Type</th>
<th>IP Users</th>
<th>IP Owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patent Licenses</td>
<td>Licensing-in IP: 3.03%</td>
<td>Licensing-out IP: 2.76%</td>
</tr>
<tr>
<td>Copyright Licenses</td>
<td>Non-exclusive License-In: 0.00%</td>
<td>Non-exclusive License-out: 3.78%</td>
</tr>
<tr>
<td>Know-how Licenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two or more IP Types</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trademark Licenses</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Hawkes, Suzanna; "When Licensing Deals Create Shareholder Value" Intellectual Asset Management

Benefits of IAM:
- Greater cash flow;
- Increased share price

Have a question? Submit them to bcranner@frilot.com
Sample IP Valuation

**Context:** Value of an Endorsement to a Product Line

**Forecast Profits** x **Apportionment** = **Value of Name & Likeness**

- **Apportionment Results**
  - **Analysis Type**
    - Website Analytics: Low 5%, High 20%
    - Excess Profits: Low 15%, High 20%
    - Promotional Use: Low 8%, High 12%
  - **Use**: 15%

- **Benefit**
  - **Apportion**
  - **Discount Rate**

- **PV of Future Benefit**
  \[
PV = \sum_{t=1}^{n} \frac{FB_t}{(1 + R)^t} = $603 \text{ (IP)}
  \]
  \[
  \text{or } $3,562 \text{ (EV)}
  \]

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Sample IP Valuation

Context: Value of an Endorsement to a Product Line

Forecast Profits \times Apportionment = Value of Name & Likeness

Apportionment Results

<table>
<thead>
<tr>
<th>Analysis Type</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Website Analytics</td>
<td>10%</td>
<td>25%</td>
</tr>
<tr>
<td>Excess Profits</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>Promotional Use</td>
<td>15%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Use 18%

Benefit \times Apportion \times Discount Rate

\[
PV = \sum_{t=1}^{n} \frac{FB_t}{(1 + R)^t} = \$826 \text{ (IP)}
\]

\[
= \$4,162 \text{ (EV)}
\]
Wrap-up

• Every organization builds IP and IA in its normal course of business

• Valuation tools are not rocket science, but valuing IP requires an additional step: developing the Apportionment Factor

• Valuation is both a tool to measure value and a tool to increase value

• IAM uses IP Valuation to achieve a greater ROII

Have a question? Submit them to bcranner@frilot.com
Intellectual Property Rights: Washington Perspective

By: Bill Sells

www.sfia.org
• SOPA & PIPA crushed by on-line community

• GOP opposed to government interference with internet

• Democrat leading effort to stop ICE seizures of domain names
Trade Agreements

• Russia Ascension to WTO

• Trans-Pacific Partnership (TPP)

• Transatlantic Trade and Investment Partnership (TTIP)

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State Option

• NY & CA laws to combat pirated software and IP

• WA & LA unfair competition laws prohibit “unfair methods of competition”

• State AGs working with harmed company & IT provider target foreign companies

Have a question? Submit them to bcranner@frilot.com
Thank You To All of Our Speakers

Any Webinar Questions?

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April 8-9, 2014 • Phoenix, AZ
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