

Intellectual Property Valuation: The Enforcement Equation

Perspectives From In-House and Outside Counsel

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Sanford T. Colb & Co.
Intellectual Property Law



בית הספר הגבוה לטכנולוגיה בירושלים
JERUSALEM COLLEGE OF TECHNOLOGY

It's more than the back of a napkin...

- The Valuation Framework For the IP Owner
- The Valuation Framework For the Target
- What should the IP Owner Do Before Launching An Enforcement Program
- What should the Target do in the first 60 days after receiving notice

For the IP Owner

- *Cash or Market Position*
- *Technology/Feature Protection*
- *Protect Access to Standard*
- *Brand/Quality Protection*
- *Validate IP Position*
- *Set Market Rate for IP*
- *# of Targets*



• **The Goal Timeline:**

Modest cash from many targets

Substantial Cash from any one target

Business Collaboration and "Win-Win"

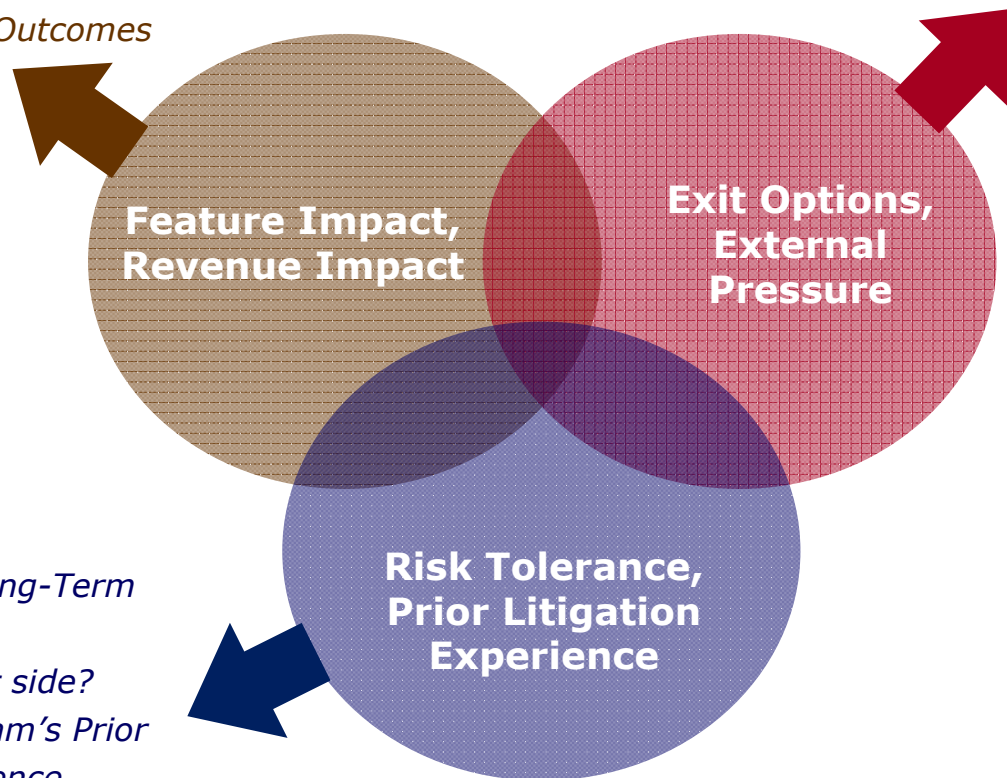
Force Design-around and "De-feature"

"I want them out of the market"

- *Bite-Back Risk*
- *Letters are low risk*
- *Filing a law suit medium risk*
- *Taking case through trial and appeal – highest risk*
- *Time is its own element of risk*
 - *Design Arounds Feasible*
 - *Market moves on*
 - *More time = more time for bite back, collateral attacks*

For the Target

- *Sales \$\$\$ Impacted*
- *Blocking Technology*
- *Standards Coverage*
- *Feasibility of Design Around*
- *"Cleanliness" of Design Around*
- *Market Direction Favorable or Not*
- *"Least Intolerable" Outcomes*



- *Cash Availability*
- *Time Horizon Impact*
- *Acquisition of IP Owner*
- *Impact on External Stakeholders*
 - *Customers*
 - *Investors*
- *Interference with Corporate Goals*
 - *Exit Events – acquisition, capital infusion, going public*

- *Near-Term vs Long-Term Risk Tolerance*
 - *Time on your side?*
- *Management Team's Prior Litigation Experience*
- *Bite-Back opportunity*

Establishing & Protecting Value of IP Before Approaching Infringer

- ❖ Establishment of brand
 - Continued use of mark associated to the product
- ❖ Institution of enforcement regime
 - Sliding scale of enforcement (direct competitors – all infringers)
 - Watch notices and cease and desist letters
 - Avoiding dilution of trademarks by enforcement against confusingly similar marks by third parties
- ❖ Strategic considerations in pre-suit diligence
 - Opinion letter?
 - Clearance search

Matching the Analysis – “How to Get to Yes”

- Except for rare cases, most IP disputes resolve – before, during, or after trial
- In many cases, the same result could have been achieved earlier in the process

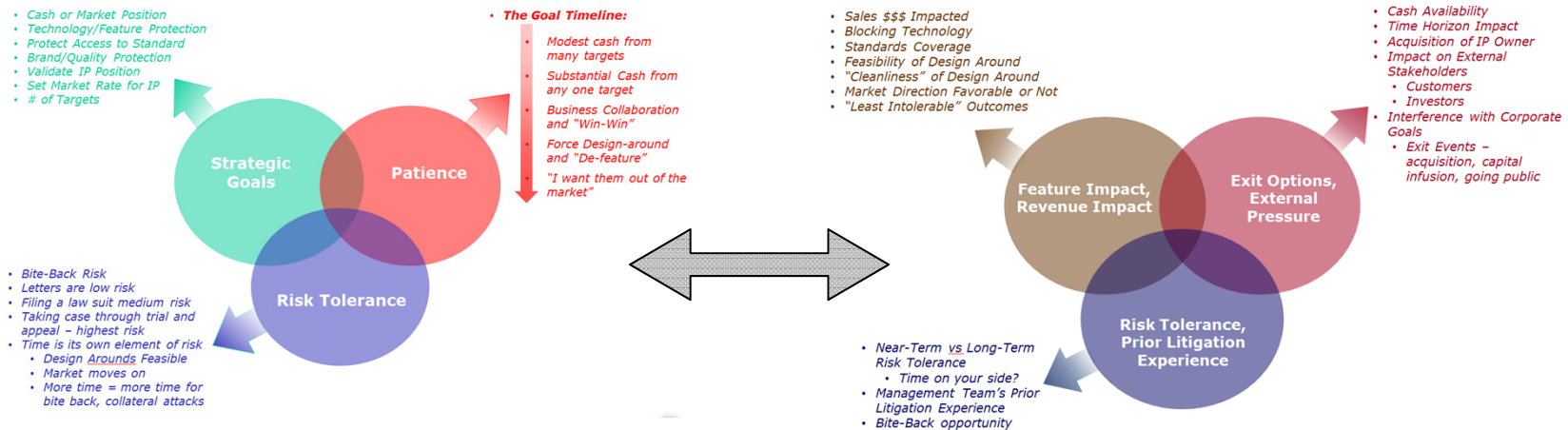
WHAT MATTERS

- Clear Goals
- Process
- Personalities (Corporate and Individual)
- Lack of accurate information about the other side
- The merits
- Litigation deadlines

OVERRATED

- Posturing
- Who initiates the discussion
- Who blinks first
- Threats without action
- “Best and Final” Offer

Checklist for the IP Owner Before Enforcement: *The Final 60 days*



1. IP Owner's Analysis
2. To extent possible with limited information, conduct Target's analysis
3. Identify Areas of Overlap, Realistic Outcomes
4. Invest in Serious Damages Analysis
5. Invest in Serious Infringement Analysis
6. Insurance through continuations
7. Impress target with investment in pre-enforcement analysis
8. Final Strategic Decision: Talk First or Sue First

Checklist for the IP Owner Before Enforcement: *The Final 60 days*

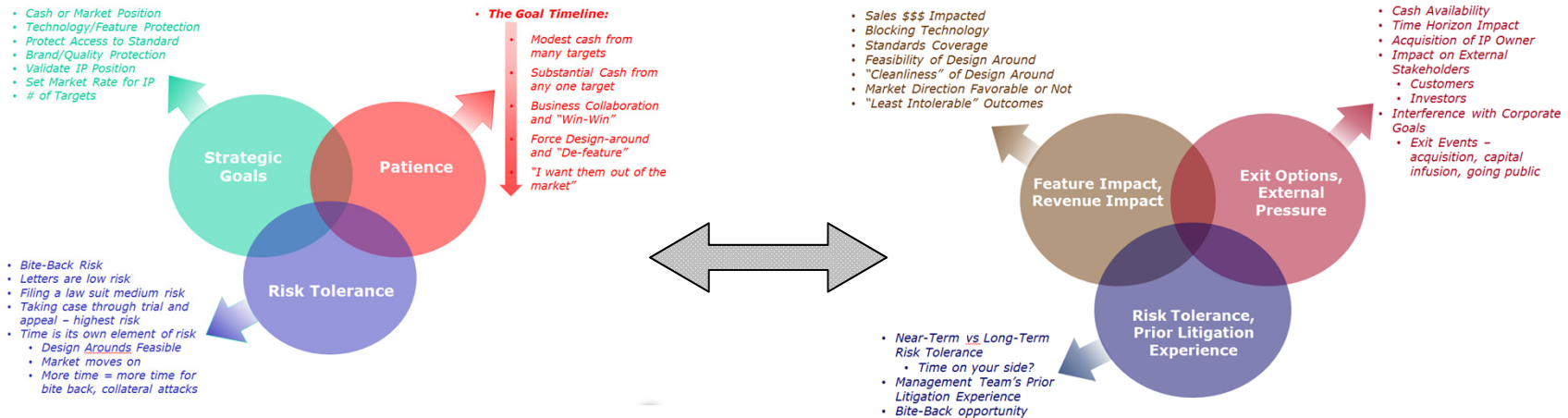
What Makes Target Take Your Patents Seriously

- Pre-Enforcement Due Diligence that indicates readiness for protracted litigation
- Serious and Realistic Damages Theory
- Breadth of IP coverage– death by 1000 cuts – with the analysis to back it up
- Patents covering standard with proof that the patent is truly essential to the standard
- Attorney Reputation and Track Records

What Doesn't

- Boilerplate accusations
- Parroting claim language in infringement claim charts
- Generic Damages Theory
- Large Portfolio which “you must be infringing something”

Checklist for the Target: *The First 60 days after notice*



- Hire the right counsel, based on:
 - Experience and track record, particularly in the forum
 - Specific experience against the Plaintiff and patent(s)
 - Price
- Perform ***Serious*** Damages Analysis
- Perform ***Serious*** Merits Analysis (infringement, invalidity, willfulness)
- Ask IP owner for a claim chart
- Final Strategic Decision: Invite discussion or demonstrate willingness to litigate

Checklist for the Target: *The First 60 days after notice*

What Makes the IP Owner More Realistic

- Relay low sales numbers in company documents
- Opening the Kimono (relay an incurable non-infringement theory or killer prior art), particularly before sharing with a joint defense group
- Assert counterclaims
- Attorney Reputation and Track Records
- Precedent matters (other IP Owners are watching your behavior for future cases)

What Doesn't

- Informal & uncorroborated relaying of low sales numbers
- Empty statements about the patent being invalid over "old" technology
- Suggesting that you will behave entirely differently than you did the last time you were sued

The Forum Battleground: Which District Court? Or No District Court at All?

IP Owner Considerations

- Threat of Declaratory Judgment suit
- Holding Jurisdiction and Venue
- Home Cooking & pro-plaintiff jurisdictions
- Rocket Dockets with predictable case calendars
- Understanding the timeline of attorney fees

Target Considerations

- Possible Declaratory Judgment suit in another forum
- Viability of transfer or severance motion
- Joint defense group coordination often vital
- Initiate parallel reexam and seek a stay of litigation

Parallel Reexamination at the PTO:

IP Owner Considerations

- Heavy workload and expense
- No presumption of validity
- Broader claim construction bringing in more prior art
- Jury replaced by 3 technically trained examiners
- Try to strengthen your patent over the art

Target Considerations

- *Ex Parte* or *Inter Partes*
- Heavy workload and expense
- Stay of district court action
- No presumption of validity
- Broader claim construction bringing in more prior art
- Skilled Examiner Judges
- Additional willfulness defense
- Danger of “cleansing” prior art

Result of Litigation

- **Injunctions** – *eBay v. MercExchange*

- **Non-practicing entities** – no irreparable harm
- **Direct competitors** – injunction requests denied as a result of existing licenses, imminent patent expiration, public health concerns

- **Compulsory Licenses** – *Paice v. Toyota*

“Should the parties fail to come to an agreement, the district court could step in to assess a reasonable royalty in light of the ongoing infringement.”

Paice LLC v. Toyota Motor Corp., 504 F.3d 1293, 1315 (Fed. Cir. 2007)
(Rader, J., concurring).

- **Traditional Damages** – Reasonable Royalties / Lost Profits

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