



Making Innovation Pay:

Managing IP in the Corporate Enterprise + Ethics issues for Patent Owners

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Managing IP: Where are we?

- Patent, Trademark and Copyright power is expanding
- IP owners are more aggressive
- Customers are more aggressive
- Counterfeiting is more prevalent

There is a need for: -proactive strategies
-managing IP risk
-leveraging IP assets

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What next?



- Do you have a cost-effective plan?
- Can you justify it?
- Are your processes durable?
- Will your *innovators* buy into them?
- Will your *executives* buy into them?
- Are you ready to deal with the inevitable surprises?



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Finding your Intellectual Property

- Explore your business model and look at the relationship among ***Complementary Assets***
- Look at your strategy and the available IP protection tools:
 - Apparatus, Compositions
of matter & processes-----Patents
 - Brand & trade dress -----Trademarks
 - Semiconductors -----Topography
 - Computer code -----Copyrights
 - Manufacturing -----Trade Secrets



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Intellectual Property



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Patents: Know why you want them

1. To *protect* a product, service, or business model *from being copied* by others, especially “free-riders”
2. To gain *freedom to operate* and access to developments of others: leverage through licensing and counter-ammunition
3. To *preclude others* from getting patents on your own developments
4. To generate an *optimal return* on your investment

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The Current USPTO Situation

- **Average pendency is long (and includes continuation applications):**
 - 32 mos. for chemicals & materials
 - 44 mos. for computers & software
 - 60 mos. for business methods
- **Quality is problematic:** 3.5% of patents allowed have an unpatentable claim
- **The backlog grows:** Over 1,000,000 applications are pending

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The Litigation Situation

- In 2006: new patent suits filed: **2200+**
- In 2005: Median damage award: **\$6M**
Average damage award: **\$5.3M**
- Top 25 patent *awards* in 2001-2005:
ranged from **\$86.5M to \$529M**
- Top 25 patent *settlements* in 2001-2005:
ranged from **\$141M to \$1.2B**

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How are innovations made?

1. Companies operate on different paradigms
 - Small vs. Large *and* Narrow vs. Broad
2. Innovation can occur in different ways
 - “Eureka” moment vs. Incremental steps
3. Simultaneous discoveries can occur completely independently
 - *Usually through the evolution of enabling, underlying technology*



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Three Challenges in a Knowledge-Based Company

1. **Getting** information from the innovators
 - Incentives and motivation**
2. **Building** the arsenal
 - Processes**
3. **Extracting** value from the portfolio
 - Purposes**



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Three Challenges in a Knowledge-Based Company

1. *Getting* the information from the innovators
 - Inventor motivation through “Invent shops”, “Innovation Workshops”, or specialized R&D to build the portfolio
 - Incentive program to encourage timely submissions
2. *Building* the patent portfolio
3. *Extracting* value from the patent portfolio

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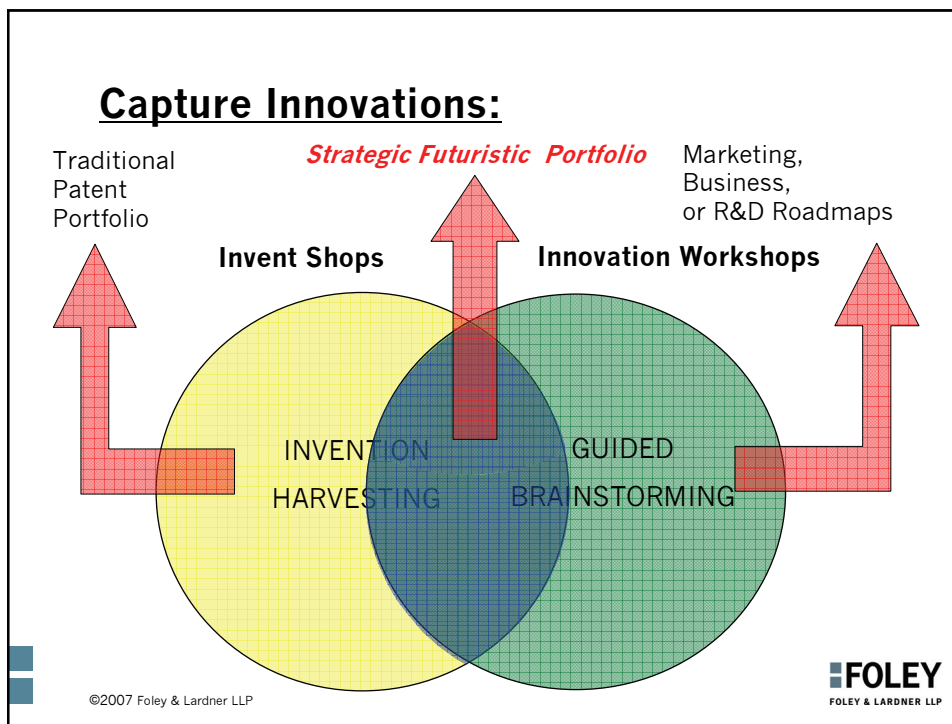
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Capture Innovations: Use Inventor Incentives

- A. Objective: To increase and focus invention disclosures
- B. Get high-level managers to evangelize
- C. Give cash awards to inventors (U.S. example):
 1. On invention **disclosure**: \$X
 2. On patent **filing**: \$10X
 3. On patent **grant**: Personalized plaque
- D. Recognize innovators in peer groups, annual banquets, etc.
- E. Set up cooperative administration: By legal department, HR, R&D function and business groups

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- ## Three Challenges in a Knowledge-Based Company
1. *Getting* the information from the innovators
 2. *Building* the patent portfolio
 - Thoughtfully select the innovations
 - Use the right Portfolio Development processes and tools
 3. *Extracting* value from the patent portfolio
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***Institutionalize* portfolio development processes that help to:**

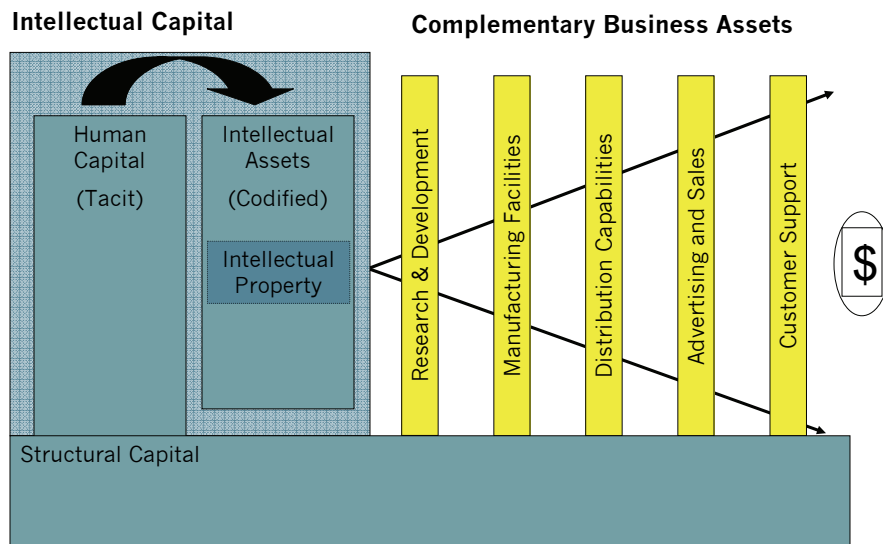
1. Spot future trends before they come into focus
 - Use *competitive intelligence* to Learn and intersect the business strategies of competitors
 - Use *gap analysis* to Identify and cover missing enablers
2. Focus on *ALL* strategic directions, covering:
 - Competitors, Complementors, Substitutors
 - Upstream suppliers and downstream customers
3. Identify problematic patents owned by others
 - Design around them; invalidate them; or license them
4. Create patents and/or collect prior art covering competitors' businesses for use as counter-ammunition in disputes or licensing negotiations
5. Look at *ALL* complementary assets in the value chain



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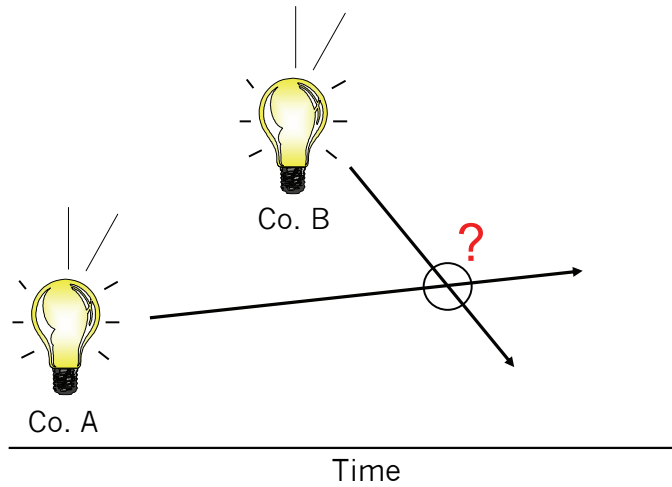
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A Company Model



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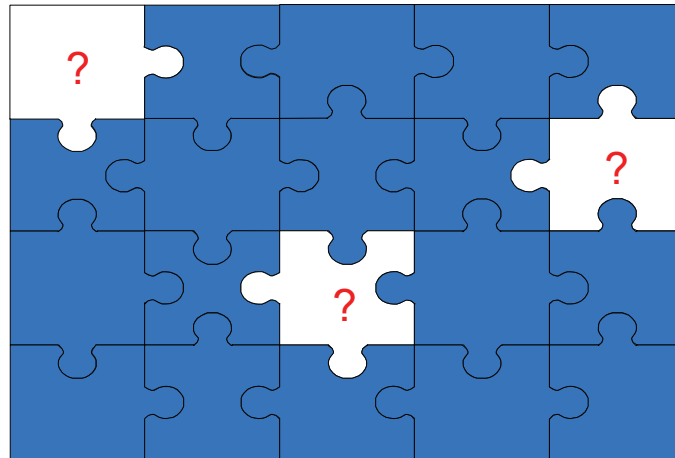
Intersecting Strategies Result in the Same Product: Who Owns the Patents?



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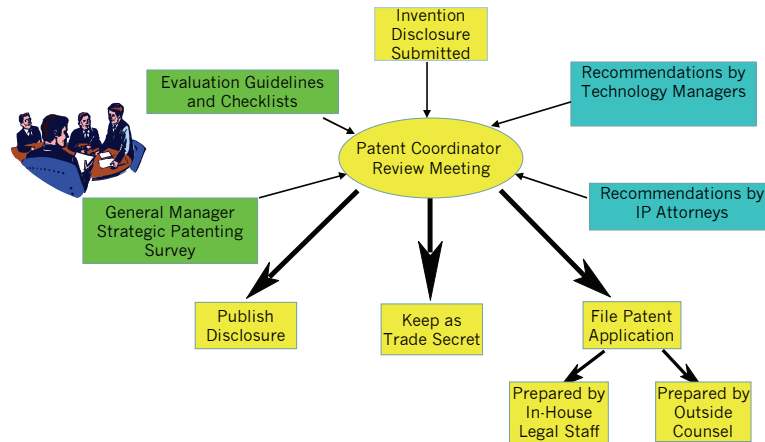
What Are the Missing Pieces? Invent and Patent Them Now



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Set up a Patent Coordinator & Review Process



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Strategic Patenting Survey

TECHNOLOGIES/PRODUCTS	\$100 TEST	NON-US PROTECTION
List: (i) Strategic Technologies: technologies or products that have the highest strategic importance <u>over the next five years</u> , and (ii) Futuristic Technologies: <u>emerging and futuristic technology opportunities</u> of likely use by competitors, substitutors, complementors, downstream customers' customers, and upstream suppliers.	Allocate \$100 to pay for patenting activity among all listed.	Name non-U.S. countries where patents should be obtained (e.g. Japan, Germany, UK, China).
1. (Check: <input type="checkbox"/> Strategic or <input type="checkbox"/> Futuristic)		
2. (Check: <input type="checkbox"/> Strategic or <input type="checkbox"/> Futuristic)		
3. (Check: <input type="checkbox"/> Strategic or <input type="checkbox"/> Futuristic)		
4. (Check: <input type="checkbox"/> Strategic or <input type="checkbox"/> Futuristic)		
5. (Check: <input type="checkbox"/> Strategic or <input type="checkbox"/> Futuristic)		
6. (Check: <input type="checkbox"/> Strategic or <input type="checkbox"/> Futuristic)		
7. (Check: <input type="checkbox"/> Strategic or <input type="checkbox"/> Futuristic)		

Use an *Invention* Evaluation Matrix

(Source of example: www.Anaqua.com)

	High value must have	n/a	n/a	n/a	3	3	3	2	2	2	1	1	1	Broad	
Internal value	Drives key features	0	1	1	1	✗	2	2	2	1	1	1	0	Specific claims with broad application	
	Mainly external value	0	0	1	1	1	1	✗	1	1	1	0	0	Specific claims with narrow application	
	Regulatory requirement	0	0	0	1	1	1	1	1	1	0	0	0	Narrow	
	Value not determinable	-2	-2	0	0	1	1	1	1	0	0	-1	-1	Difficult to patent	
	No real value	-3	-2	-2	0	0	0	0	0	0	0	-1	-1	-2	Unpatentable
		None	Low	Some but difficult to quantify	Broad interest	High value	Block to competition	Easy to detect	Virtual product teardown	Actual product teardown	External outside testing needed	Not detectable	Litigation required		
		External value						Ease of detection						Claim coverage	

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Use a *Portfolio* Evaluation Matrix

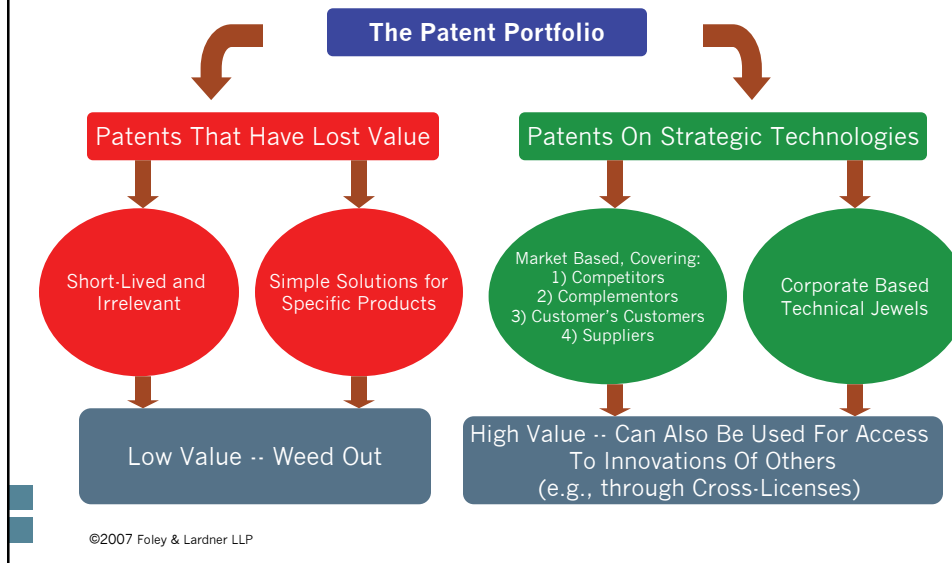
(Source of example: www.Anaqua.com)

	Business assessment				Legal assessment				
Business value	High	2	2	2	2	2	2	2	High
		Jewels of the estate that should be maintained; highly defended							
		4	3	3	3	3	4	4	Claim coverage
	Low	4	3	3	3	3	4	4	Low
	Low	Technical value		High	High	Ease of infringement detection		Low	

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Characterize your Patent Portfolio



Three Challenges in a Knowledge-Based Company

1. **Getting** the information from the innovators
2. **Building** the patent portfolio
3. **Extracting** value from the patent portfolio

Patent cross-licensing & out-licensing for:

- Generating revenue
- Obtaining freedom to operate
- Maintaining control
- Settling disputes

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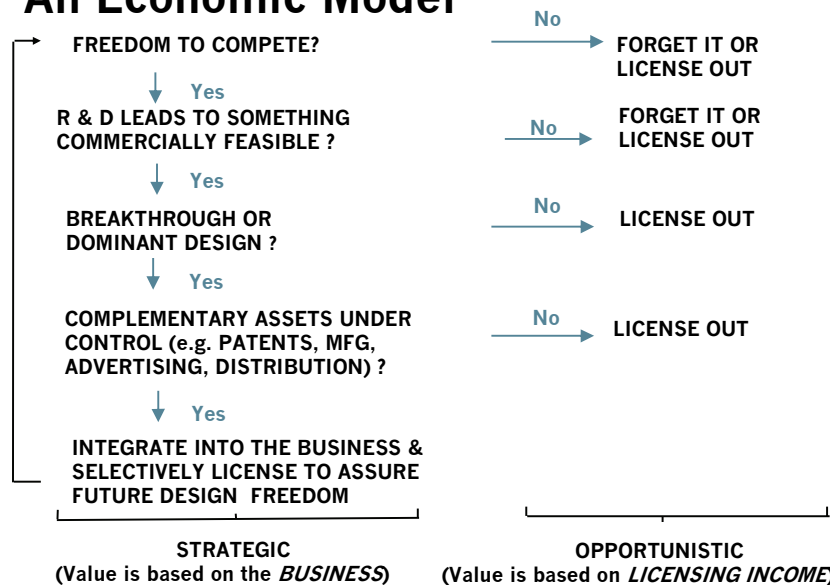
Out-licensing evolves from awareness of one or more of the following factors:

1. **Core technologies** not fully penetrated into markets
2. **Non-core technologies** can produce income
3. **Non-strategic markets** have revenue potential
4. **Freedom to operate** by trading IP rights
5. **Alliances** can leverage capabilities
6. **Industry standards** can be created or perpetuated
7. **Inevitability:** Others will license if you don't

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An Economic Model



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Patent Out-Licensing Areas

Technologies	Core	Yes	No
	Non-Core	Yes	Maybe
		Non-Strategic	Strategic

Markets

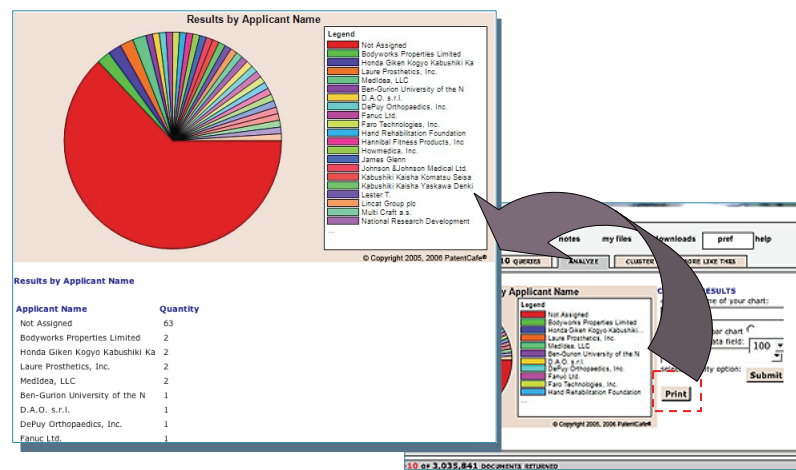
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Use Tools To Characterize Portfolios

(Example is in ICO Suite from www.PatentCafe.com)

Zoom Graphic & Patent Details



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In Conclusion: A Few Truisms:

- Innovation is planned, not random
- A patent can protect a business income from later arriving “free-riders”
- A patent may be all that differentiates a product or service in a commodity market
- The cost of a patent is a bargain if it prevents a dispute or provides freedom to operate
- An arsenal of prior art can be as important as an arsenal of patents



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Patent Ethics: What are the issues?

- Gamesmanship in the Patent Office
- Gamesmanship in the courts
- Responsible vs. abusive behavior of patent owners



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What happened since the CAFC was formed in 1982?

1. Patentability standards are lower and patents are easier to obtain
 - Examiners must prove obviousness from teaching-suggestion-motivation within the prior art. Applicants usually win.
 - Annual filings are up 4X since 1982. Applicants file preemptively rather than risk being foreclosed by someone else
2. Patents are harder to invalidate
 - Claim construction gets de-novo review and is unpredictable
 - Jury trials and forum shopping increase uncertainty
3. New damage theories and enhanced damages are allowed
4. Injunctions became "automatic"



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Perceptions and Public Policy

- Some say the CAFC is a "runaway court" that strongly favors patent owners.
- The U.S. Supreme Court is taking a look:
 - From 1990-2001, Cert was granted eight times, eight cases heard and reversal rate was 50%
 - **From 2002-2006, Cert was granted nine times, seven cases heard and reversal rate was 100%**
- Underlying themes:
 - **There is a public policy interest in weeding out "bad patents" and limiting gamesmanship**
 - The CAFC is perceived as part of the problem and needs more guidance on how to be part of the solution



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What is driving patent reform?

- Patents are now Commodities
- There is uncertainty in the USPTO: high error rate, long pendency and “bad patents”
- There is uncertainty in the courts: jurors, injunctions & venue
- Lost is the constitutional notion that patents are to “*promote the progress of science and the useful arts*”
- Reform Coalitions are active but competing: Pharma vs. High Tech



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Who says the Patent System is Broken?

1. Federal Trade Commission Report 2003
2. National Academy of Science Report 2004
3. ***Innovation and its Discontents*** book (2004) about the "broken patent system" (widely read on Capitol Hill)

The response: Patent reform initiatives in the USPTO, Congress and the courts hold promise as a “fix”

Meanwhile: The controversy is fomented by the on-going success of the Patent Trolls.....



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A Troll: To be or not to be.....

Def: An entrepreneurial opportunist that exploits patents not for producing and selling goods but to extract licensing fees, *relying on:*

- Patents of dubious quality
- Assertion well after a product or service is on the market and is hard to change to avoid infringement
- Pressure to settle because of high litigation costs
- The threat of a local jury trial, injunction and problematic outcome in a plaintiff-friendly forum



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The IPO White Paper on Trolls: Model Behavior for Patent Owners¹

Troll behavior is re-characterized as “patent enforcement misconduct”

- *On the one-hand:* Patent owners have a right to assert their patents and exploit litigation tactics
- *On the other-hand:* Some litigation tactics are abusive and create victims. Such tactics undermine the patent system objectives of early disclosure and commercialization

1. Posted at www.ipo.org March 2007. Enter “Model Behavior” in search box.



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IPO White Paper (cont'd)

- Four areas of misconduct identified
- No single behavior, in and of itself, constitutes misconduct
- But the combination of behaviors, sometimes cumulatively over time, give rise to misconduct
- Behavior may not be *per se* illegal, but it violates the spirit of the patent system



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The Four Areas of Patent Misconduct

- A. Pre-assertion Conduct and Due Diligence**
- B. Negotiations – Initiation of Contact with Potential Licensees**
- C. Negotiations – Specific Settlement Offers**
- D. Litigation Conduct**



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A. Pre-Assertion Conduct and Due Diligence

1. Avoid systematic attempts to delay patent issuance
 - Avoid expanding and tailoring claims to cover products introduced well after the original application filing date where there is no support in the original specification
2. Comply with the policies of Standard Setting Organizations
 - Adhere to the patent disclosure and exploitation activities of such organizations
3. Conduct validity and infringement due diligence before attempting to enforce a patent
 - Avoid reckless allegations of infringement and unreasonable reliance on the presumption of validity



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B. Negotiations – Initiation of Contact with Potential Licensee

4. Offer detailed written notice: identify the allegedly infringed claims and provide claim charts when asked
5. Give the alleged infringer a reasonable opportunity to respond to the notice
6. Don't bypass the person responsible for the infringement matter and go directly to senior management
7. Put the name of the real party in interest in the notice of infringement
8. Refrain from mass mailings: send notices to the real commercial targets, not unsubstantiated end-users or customers



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C. Negotiations – Settlement Offers

9. Ask for payment on the merits, not on onerous litigation costs or the uncertainties of a trial
 - Use fair value not “nuisance value” and explain how the royalty is calculated
 - Be willing to accept apportionment of royalties applied to product components at issue; don’t threaten an entire-product injunction just to gain undue leverage
10. Give target licensees time to respond
 - Don’t apply pressure by setting an onerous short response time with a progressive royalty rate for failure to meet the deadline



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D. Litigation Conduct

11. Avoid using litigation counsel with a large stock or other equity interest in the patent owner
 - But “contingency fee” is OK provided adequate due diligence is performed into the merits of the infringement claim
12. Don’t forum-shop for “patent-friendly” Districts
 - Select a District convenient for witnesses and discovery, not a District to gain leverage through inconvenience to the alleged infringer
 - Don’t establish a business in a selected District solely for venue purposes



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**IPO LITIGATION PRINCIPLES TASK FORCE:
WHITE PAPER**

Revised: 03/06/2007



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**Respecting Patent Rights:
Model Behavior for Patent Owners**

This White Paper is on the IPO website at www.ipo.org

On the opening page, enter “Model Behavior” in the search box.



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THANK YOU



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