





# Licensing to Maximize IP Value and Assets The Licensee's Perspective

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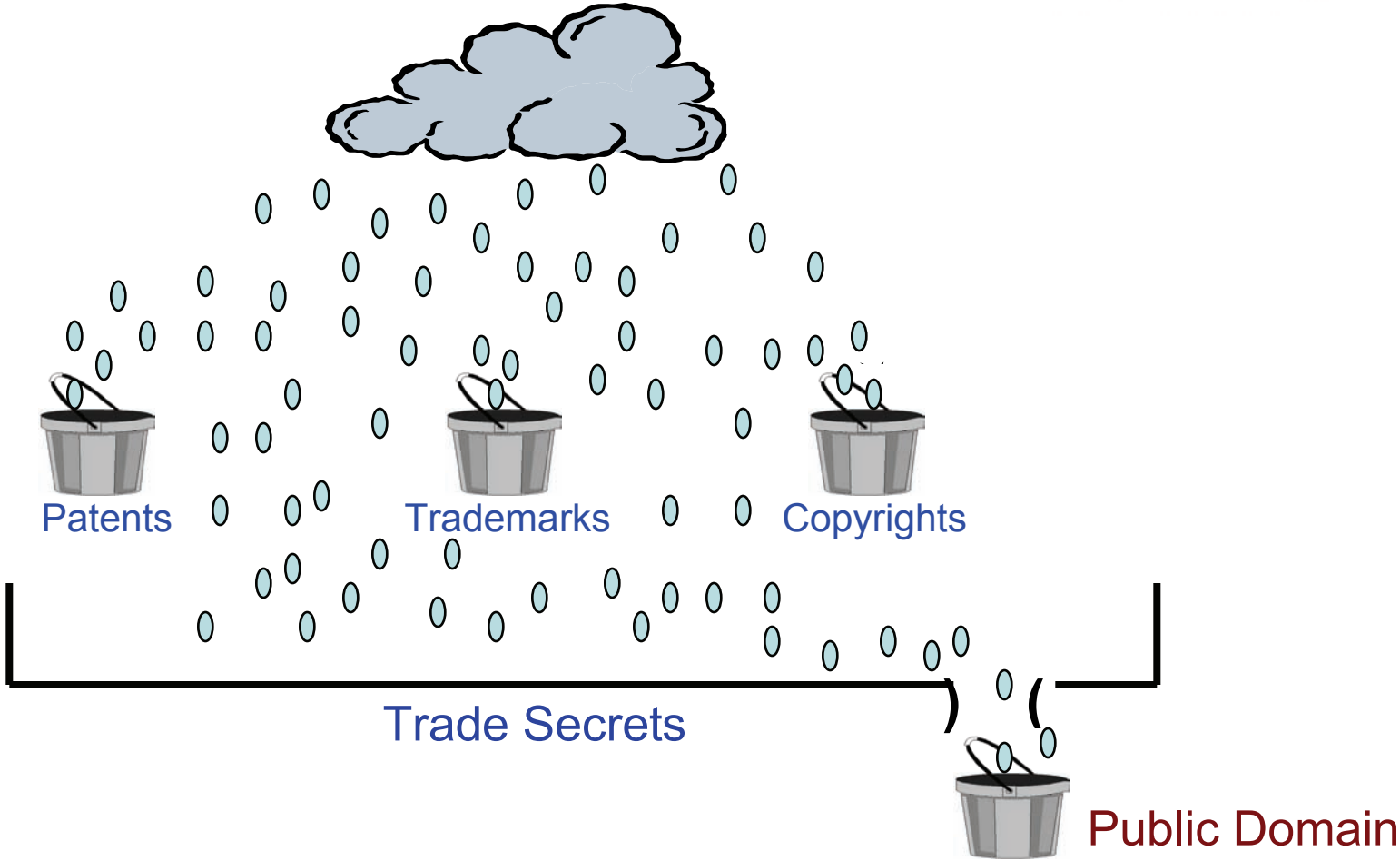
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# Intellectual Property



# The Business Side of Licensing:



1. ***Dealing with uncertainty*** in the USPTO, in the Courts and in Congress
2. ***Creating and implementing*** a licensing strategy
3. ***Selling management and the innovators*** on being pre-emptive
4. ***Using licensing as an enabler*** in the marketplace
5. ***Gaining leverage through recent case law:*** eBay, Medimmune and KSR
6. ***Using IP valuation techniques***

# Licensee Opportunities:



1. ***Freedom to operate*** without interference from others
2. ***Access*** to the developments of others
3. ***Alliances*** for sharing resources
4. ***Industry standards*** creation or participation
5. ***Secure control*** before risk escalates
6. ***Settle litigation*** cost effectively
7. ***Monetize*** your own IP portfolio as counter-ammunition to achieve relief from royalties

# How Can They Get a Patent on That?



## **1. *The first reaction to someone else's patent:***

- Technologists say, “We did that years ago”
- The lawyers say, “Can you prove it?”

## **2. *Patenting standards have dropped***

- Patent examiners have difficulty finding the prior art and/or making a rejection stick
- Litigation highlights patents of suspect validity that yield more than deserved

# What next?

## Explore your Company Model and Complementary Assets:



### *You Need:*

- Processes that are simple & durable
- Buy-in from your *innovators*
- Buy-in from your *executives*
- How to get it? Greed vs. Fear



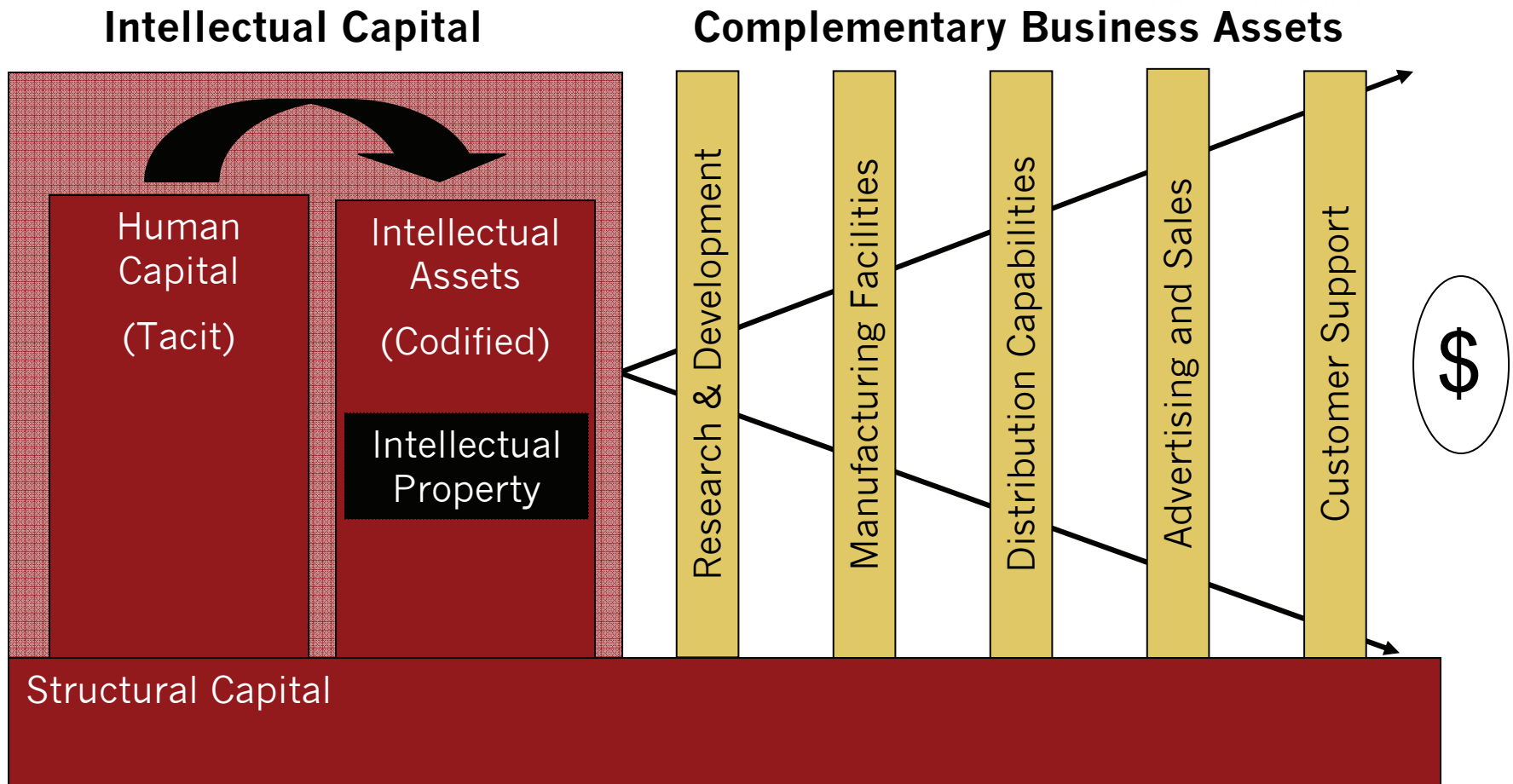
# The US Patent Litigation Situation



- 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**



# A Company Model



# How Are Innovations Made?



- The “Eureka” moment vs. Incremental steps
- Simultaneous discoveries can occur completely independently, ***usually through the evolution of enabling, underlying technology***
- Your product/service is prior art if earlier or a possible infringement if later

# Institutionalize Processes and Tools That Help Pre-emptively:



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. Look in **all strategic directions**, covering:
  - Competitors, Complementors, Substitutors
  - Upstream suppliers and downstream customers

# Institutionalize Processes and Tools That Help Pre-emptively:



*(continued)*

3. Look at ***all complementary assets*** in your business model
4. Identify problematic patents of others:
  - Show they are not infringed, invalid or unenforceable
  - Design around them
  - Consider lower cost licenses before product/service introduction
5. Create your own patents and/or collect prior art covering competitors for use as counter-ammunition in disputes or licensing negotiations

## Gaining Leverage:

***eBay v. MercExchange*** US Sup Ct. 2006



- Injunctions no longer “nearly-automatic”
- Patentees must meet the four-part test:
  1. Irreparable injury
  2. Remedy at law inadequate
  3. Balance of hardships favor patentee
  4. Public interest not disserved by granting injunction
- Patentees who do not compete with accused infringer often do not meet the “irreparable injury” test and hence are denied an injunction

# Gaining Leverage:

## *Medimmune v. Genentech*

US Sup. Ct. 2007



1. Patent Licensee no longer need show “reasonable apprehension” of suit to bring a declaratory judgment action
2. Licensee can now sue to challenge patent validity, enforceability and infringement without breaking the license
3. Public policy favors challenges to patents of dubious validity – a clause in the license contract preventing this may be unenforceable

## Gaining Leverage:

***KSR v. Teleflex*** US Sup. Ct. 2007



Explicit teaching-suggestion-motivation in prior art not necessary to show obviousness.

A combination is unpatentable if:

1. It is predictable, expected or lacks synergy
2. It meets known design or market demands
3. It is based on “ordinary creativity”
4. It is based on “common sense”
5. It would have been “obvious to try”

(But need proof by clear and convincing evidence)



# Valuing a License – What Kind Is It?



- “Carrot” or “Stick” license?
- Patents only or combined with technology transfer?
- Exclusive or non-exclusive?
- Cross-license or trade for other IP rights?
- Field of use limitations?
- Geographic limitations?
- Right to sub-license?
- Grant-back of rights to improvements?

# Valuing a License – How Much Should You Pay?



- Quantify the value of freedom to operate and risk- reduction
- Make or buy analysis: Access to technology, participation in alliances, standards, etc.
- Present value of a stream of royalty payments compared to lump sum
- Value of your own patents in a cross-license
- Use of going rates in similar areas

# Valuing a License – How Much Should You Pay? *(continued)*



- Rules of thumb
- Nuisance value and the cost of litigation
- Damages theories: entire market vs. value of contribution; apportionment

## ***Overall:***

- Balance the legal, technical and commercial factors and negotiate
- It is a business decision.

# A Few Truisms:



- Innovation is planned, not random
- Being pre-emptive pays off
- The cost of a license is a bargain if it prevents a dispute, provides freedom to operate or otherwise acts as an enabler
- An arsenal of prior art can be as important as an arsenal of patents