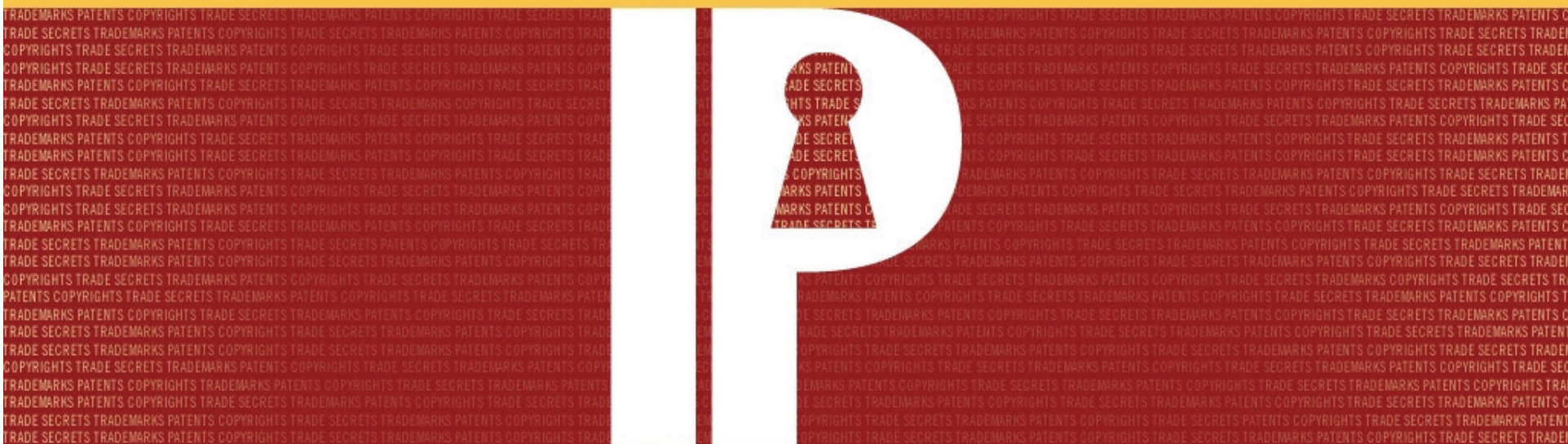


GUARDING THE TREASURE: IP VALUATION & REMEDIES

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Monetary Damages: Maximizing Your Claim or Limiting Your Exposure

Panelists:

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Panel Discussion



1. Proving Actual Damages
2. What Constitutes a Reasonable Royalty
3. Enhanced Damages and Willfulness
4. Opinion Practice After *Knorr-Bremse* and *Seagate*

PricewaterhouseCoopers Study



This study focused on damages decisions in U.S. federal district courts from 1980 through December 2006

- Damages were awarded in 1431 patent cases
- Patent case filings increased more rapidly than the growth of patent grants over the past 15 years; in 2005 and 2006, filings decreased
- The median damages awards have begun to level off
- Use of juries has increased significantly (e.g. 81% bench trials/19% jury trials in the 80s; 51% bench trials/ 49% jury trials in the '00s)





(PwC Study cont'd)

- Median damages awarded by juries have increased much faster than bench trials (e.g. \$0.5 bench/ \$1.0 jury in the '80s; \$0.9 bench/\$9.0 jury in the '00s)
- Plaintiff's overall win rate is about 36%
- Patent cases are adjudicated at summary judgment about 51% of the time
- Plaintiffs win about 53% of the time at trial



(PwC Study cont'd)

- Top 5 Districts for Plaintiffs From 1995 – December 2006 (W.D. Wis.; E.D. Tex.; C.D. Cal.; E.D.N.Y.; E.D. Va.)
- Bottom 5 Districts for Plaintiffs from 1995 – December 2006 (E.D. Mich.; D. Conn.; S.D. Ohio; D. Kan.; D. Md.)
- ***Reasonable royalties has become the most frequent measure of damages awarded in patent cases***

Define The Patented Technology



- What is the Patented Technology?
- What is it not?
- Advantages & Benefits?
- Alternatives
- Does the Patented Technology drive the sale?

Proving Actual Damages: Proving Causation



- Need to Prove Causation and Capacity
- Types of Causation Proof
 - “Two-Supplier Market” Method (Availability of Substitutes / Market Definition Issues) (See e.g. *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152)
 - “Market Percentage” Method (Availability of Substitutes / Market Definition Issues) (See e.g. *Grain Processing Corp. v. American Maize-Products Co.*, 979 F. Supp. 1233)
 - Testimony / Survey of “Customer’s” Method

What Constitutes A Reasonable Royalty ? Factors (cont'd)



- The Primary *Georgia Pacific* Factors
 - Patentee's Willingness to License at All
 - Whether Parties Are Direct Competitors
 - Established Royalty Rate (Other Licenses By Patentee for this Patent)
 - Royalties Defendant Paid for Comparable Inventions
 - Profitability of Product in Question
 - Extent of Commercial Demand for Product or Feature in Question
 - Portion of Profit Attributable to the Patented Feature

What Constitutes A Reasonable Royalty: Proposed Statute



- The Entire Market Value Rule In *Lucent-Alcatel v. Microsoft*, 02 CV 2060 (S.D. Cal. 2007)
- Congressional Proposals to Rein In Reasonable Royalty Awards By Limiting Use of Future Market Value Rule
 - H.B. 1908
 - S.1145

Enhanced Damage Claims: Proposed Changes to Willfulness Standard



- Current Willfulness Standard:
 - “proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness.” (*In re Seagate Technology, LLC*, 2007 WL 2358677 at *5)
- Proposed Willfulness Standard Under H.R. 1908
 - Patent owner must present clear and convincing evidence that after the infringer had actual notice of the asserted patents, claims, and infringing products, the infringer: (i) intentionally copied the patented invention; or (ii) continued to engage in infringing activities after judgment of patent infringement (H.R. 1908, p. 29 ln. 5 – p. 30 ln. 14)

Changes in Opinion Practice: *Knorr-Bremse* and *Seagate*



■ The *Seagate* Case

- Adoption of “Objective” Standard:

- “proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness.” (*In re Seagate Technology, LLC*, 2007 WL 2358677 at *5)
- “patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” (*Id.*)
- The infringer's state of mind is not relevant to the willfulness inquiry. (*Id.*)
- “If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer. We leave it to future cases to further develop the application of this standard.” (*Id.*)

Changes in Opinion Practice: Impact of Changes



- Impact of Changes and Proposed Changes on Litigation of Willfulness Claims
 - Possible Requirement to Bifurcate under Proposed Statute
 - Need to Prove “Objective” Willfulness
 - What constitutes “objective” willfulness
 - How do you prove/defend against “objective” willfulness

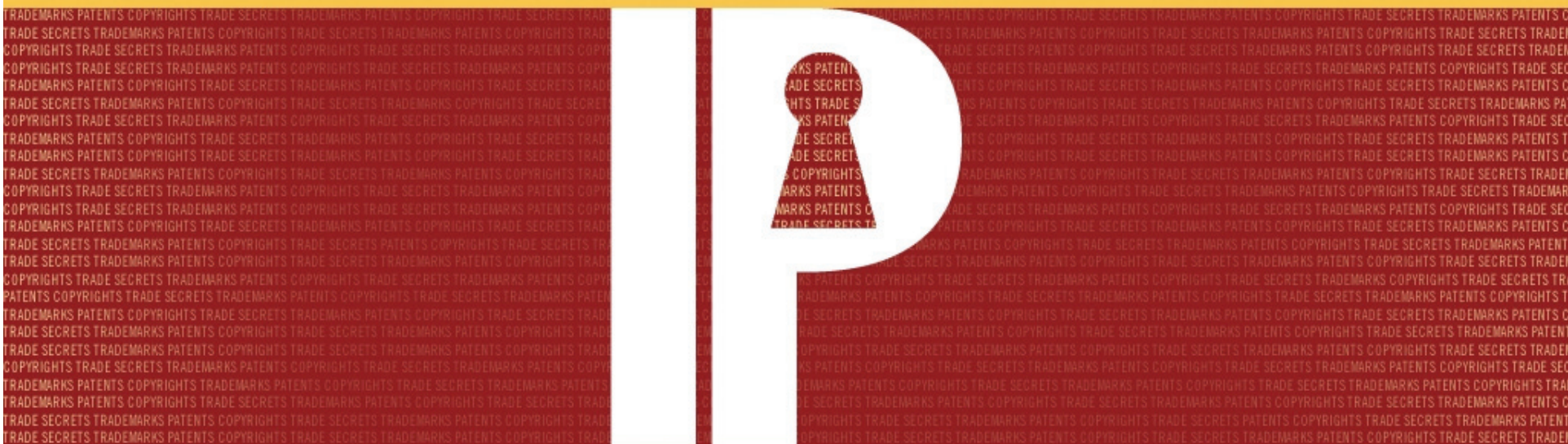
Changes in Opinion Practice: Impact of Changes (cont.)



- Impact of Changes and Proposed Changes Upon Decision to Seek an Opinion
 - Likely production in instances where opinion is sought
 - The changing calculus as to when to seek an opinion
 - Continued advisability of using different counsel for opinions and litigation

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A Reasonable Royalty: Pitfalls To Avoid



- Litigation Induced Royalty Rates
- Inadequate Discovery

Proving Actual Damages: The Components



- Actual Damages = “Lost Profits”
- Lost Profits =
 - Lost Sales Revenue
 - Less
 - Variable Overhead Expenses
 - Plus
 - Price Erosion and any Increased Costs

(See e.g. Rite Hite Corp v. Kelley Co., 56 F.3d 1538; Wechsler v. Macke Intern Trade, Inc. 486 F.3d 1286)

What Constitutes A Reasonable Royalty ? Factors



- The Hypothetical Negotiation Assumptions
 - Timing
 - Agreement

Proving Actual Damages: Other Practical Proof Problems



- Proof of Amount of Lost Sales
 - Different Prices Issue (Effect on Demand)
 - Different Features Issue (Effect on Demand)
 - Types of Proof of Amount of Lost Sales
 - Historical Evidence
 - Survey Evidence
- Proof of Variable Costs (Allocation Issues)
- Proof of Price Erosion and Other Types of Additional Costs

What Constitutes A Reasonable Royalty ? Factors (cont'd)



- Industry Licensing Practices (Other Patents)
- Expert Opinions

See e.g. Georgia Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116; *Paymaster Technologies, Inc. v. U.S.*, 2006 WL 1228851; *Fonar Corp. v. General Electric Corp.*, 107 F.3d 1543, 1552-53; *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1579-81)

What Constitutes A Reasonable Royalty: Proposed Statute (cont'd)



- Proposed Increased Court Supervision of Reasonable Royalty Claims
 - Limits on Factors for Jury to Consider
 - Limits on Use of “Entire Market Value” Rule
 - Required Findings

What Constitutes A Reasonable Royalty: Proposed Statute (cont'd)



- Required Allocation in Appropriate Cases: The Royalty Base may only include the “...economic value properly attributable to the patent’s specific contribution over the prior art. The Court shall exclude from the analysis the economic value properly attributable to the prior art, and other features or improvements, whether or not themselves patented, that contribute economic value to the infringing product or process.”

(See H.R. 1908, proposed 35 U.S.C. § 284(b)(2))

Enhanced Damage Claims: Current Status



- Types of Enhanced Awards in Patent Cases
 - Up to treble damages if willfulness found
 - Attorney's Fee Awards in "exceptional cases"

- Frequency of such Awards
 - Damages were awarded in 1431 patent cases from 1980 through December 2006 (federal district courts) (PW Study)
 - Median damages awarded by juries have increased much faster than bench trials (e.g. \$0.5 bench/ \$1.0 jury in the '80s; \$0.9 bench/\$9.0 jury in the '00s) (PW Study)
 - Reasonable royalties has become the most frequent measure of damages awarded in patent cases

Enhanced Damage Claims: Current Status (cont'd)



- Standards for Applying Damage Multipliers
 - **damages may be increased “up to three times”** (35 U.S.C. 284; see *Transclean Corp v. Bridgewood Services*, 290 F.3d 1364)
 - **damages may be trebled upon willful and wanton infringement** (See e.g. *Stryker Corp. v. Davol, Inc.*, 234 F.3d 1252)
 - **damages may be doubled** (See. e.g. *Cormak Comm. V. Harris Corp.*, 156 F.3d 1182)
 - **damages may be increased by a certain percentage** (See e.g. *Advanced Cardiovascular Sys. V. Medtronic*, 265 F.3d 1294)

Enhanced Damage Claims: Current Status (cont'd)



■ Standards for Fee Awards

- Court has discretion to award in “exceptional cases” (35 U.S.C. 285)
- Factors to consider:
 - Willful infringement
 - Inequitable conduct before PTO
 - Litigation misconduct or frivolous suits

(See e.g. *Beckman Instruments v. LKB Produkter AB*, 892 F.2d 1547, 1551; *Read v. Portec*, 970 F.2d 816)

Changes in Opinion Practice: *Knorr-Bremse* and *Seagate*



- The *Underwater Devices* Standard:
 - Imposed an affirmative duty on patentee with actual knowledge of another's patent rights to “seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.” (*Underwater Devices v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90)
- The *Knorr-Bremse* Case
 - Elimination of Adverse Inference Rule:
 - No adverse inference from invoking the attorney-client privilege or failure to obtain the advice of counsel
 - Reasoning: precedent required inappropriate burden on attorney-client relationship (See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1343-46)