

TOP TAKEAWAYS

THE BOARD'S ROLE IN PATENT AND IP STRATEGY

1. **General.** The Board should have a complete understanding of the IP strategy and how the IP strategy affects the business. In addition, the Board should understand the IP philosophy of the company and how the company manages its IP assets. Using this understanding, the Board should evaluate IP activities to ensure align with both the IP strategy and the overall corporate strategy. The Board can also watch industry activities to determine if changes to the IP strategy are warranted.
2. **Parties of IP Litigation.** The Board should be asking about IP litigation if: it involves an important adverse party (e.g., a competitor, a customer, a big player, or a former senior level employee or executive); it involves a significant product or service; there is the possibility for significant financial exposure; it involves the possibility of bad publicity or harm to the company's reputation; and/or there is a high likelihood that the suit will take up significant company resources or significant time commitments of senior level employees or executives. Other considerations include the company's or the industry's appetite for litigation and the strength of possible countermeasures. These kinds of cases may have an impact on the company's overall financial position or reputation in the industry, which may affect the company's bottom line.
3. **Fees of IP Litigation.** Most Boards already ask about the cost of IP litigation in terms of legal fees (the average patent case costs between \$2.0 and \$3.1 million and the average trademark case costs just under \$1 million) and potential damages (the median patent damages award from 2011-2015 was \$9.2 million), which can be substantial. Boards should also be asking about less obvious unintended costs that can result from litigation, such as loss of investor confidence or loss of employee productivity, which can have an even greater impact on the company's bottom line.
4. **Reason for IP Litigation.** Smart Board members are always looking at IP litigation and asking: Who is the adverse party and/or who is that party aligned with? Why was the litigation started? Is this litigation tied to core vs. non-core products and services? Board members want to know what enemies the company might be making.
5. **NPE IP Litigation.** Depending on the company, the Board may ask about defending litigation against Non-Practicing Entities (NPEs). For example, companies that are hit with a high number of NPE cases and/or companies that utilize technology that is the subject matter of the NPE-owned patents are more likely to be more negatively impacted by NPE litigation. The Board should consider if the NPE litigation impacts the company's IP strategy.
6. **IP Procurement Quality.** Boards typically measure IP quantitatively, that is, by looking at the number of patents and trademarks acquired as compared to the competition. However, a proper assessment of IP procurement should be more than a numbers game. Rather, the focus should be on the quality of the IP. Does your company's IP portfolio adequately cover your company's key products and services? Or importantly, does your company's patent portfolio read on your competitors' (or supply chain's) products or services? Management should be held accountable for explaining how the procured IP fits with the company's overall IP strategy.
7. **IP Procurement Strategy.** From a broader perspective, a company's IP strategy should mirror the company's overall business strategy. The Board should find out how the company's IP strategy is intended to accomplish the company's broader strategic goals—now and in the future. For example,

if a company intends to expand operations into Brazil (or a known competitor is expanding there), then the Board should ask what is being done to protect the company's IP rights and opportunities in Brazil. Similarly, a company's brand protection strategy should go hand-in-hand with the company's overall marketing strategy.

8. **IP Procurement Budget.** The Board should be concerned with the amount of money that is being spent on IP. Depending on the industry, a greater or lesser percentage of the company budget should be devoted to research and development, and procuring and enforcing intellectual property. In addition, the Board can review how procured IP is being used and if the IP's use is consistent with the overall IP strategy. Further, how procured IP is used can be indicative of how much the company should continue to spend on IP.
9. **Trends in IP Procurement.** The Board should be asking whether your company's IP strategy is in line with current patenting trends, especially in your industry. For example, over the past five years there has been a shift toward international patent prosecution in general, with a specific trend towards filing patents in China. It is important to know how the company's current and future global footprint compares to those of your competitors in light of the industry trends. Will your IP strategy adequately cover where both you and your competition will be in five years?
10. **Brand Value.** For some companies, protection of brand value is more important than patent protection. Boards should determine if the company is more brand driven versus more technology driven. Boards, however, often fail to discuss adequacy of brand protection because there are few metrics to quantitatively measure it. Beyond traditional trademark infringement matters, the Board should be likewise be asking questions about counterfeiting activity, and management should be held accountable for advising how much brand value is being siphoned off due to counterfeiting.
11. **Value of IP Portfolio.** The Board should be asking about the value of your IP portfolio. IP portfolios can add tremendous value to a company. In recent years, sales involving IP portfolios worth several billion dollars have made headlines. The Board should discuss how the company's overall IP strategy is adding to the value of its IP portfolio. In addition, where and how the IP is held (including through use of a holding company) varies by jurisdiction and can provide tax benefits such as transfer pricing.
12. **IP Due Diligence.** Generally speaking, the Board is involved with all major acquisitions and divestitures. When these involve IP, the Board should hold management accountable for properly valuing the IP that the company is purchasing, for properly assessing the value extracted from sold IP assets, and for explaining how the transaction aligns with the IP strategy. The Board should be educated beyond just top level information, and should be provided more details as to how exactly the newly acquired (or sold) IP impacts the company's overall strategy.

For more information on The Board's Role in Patent and IP Strategy, please feel free to contact the moderator directly:

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