

Do's and Don'ts of Patent Enforcement: Optimizing IP Value in Trying Times

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Patents Create Value

- Consider patents as valuable assets
- For start-ups in technology intensive sectors, “doubling of patent application stock for a given firm is on average associated with a 92% increase in pre-money valuation”
- \$200,000 investment in patent applications may lead to \$12 million increase in company valuation
- Increased patent activity increases likelihood of securing initial funding from a prominent VC and increased likelihood of a successful IPO
 - Hsu and Ziedonis, *Patents As Quality Signals for Entrepreneurial Ventures* , presented to DRUID Summer Conference, Copenhagen, Denmark June 2007

Benefits of Valid and Enforceable Patents

- You can exert market exclusivity because competitors will steer clear of the patented technology
- Market exclusivity results in increased market share and potential pricing benefits
- Patents can be licensed to provide revenue in form of payments of fees or royalties

Patents Need Respect to Have Value

- Simply owning patent(s) is not generally regarded as enough of a deterrent to secure a strong market position
- Ownership must be accompanied by ACTION
- To gain respect:
 - Get valid and enforceable patents
 - Enforce those patents

Evaluate the Best Way to Extract Value

- “Value extraction” must be considered from the time the patent portfolio is being developed through the enforcement period
- Possible ways of extracting value
 - Commercialization of the invention
 - Enforcement of the patent(s)
 - Assignment or licensing the patented technology
- If you wait to apply for patents, you may lose the right to patent, especially under the F-I-T-F system
- If you wait until your patents are infringed to map out a plan, you risk wasting your investment

1. Commercialization

- Map your product offering to your patent(s) and other IP
- Factor this into your pricing

2. Enforcement

- Recognize the risks – requires significant investment of money and effort
 - Disruption of business is a major consideration
 - Costs will be substantial
 - Mean cost for SF Area \$1-\$25M through end of discovery: \$1.82M
 - Mean cost for SF Area \$1-\$25M inclusive of trial: \$3.15M
- Establish goals
 - Maintain exclusivity through injunctive relief (or ITC exclusion order)
 - Extract revenue through collection of past damages
 - Generate a royalty stream
 - Hybrid strategy combining several of above

3. Assignment or Licensing

- Generate additional income (à la TI, IBM)
- Indirectly commercialize the technology without investing capital
- Improve the speed of bringing innovation to market
- Encourage development of a standard
- Pool complementary patents to avoid the product from being subject to multiple royalty demands

Enforcement vs. Licensing Decision

- Consider overall effect on business and innovation strategies
- Evaluate scope of patent protection
- What is the market for the products
- What is the economic impact of licensing

Precursors to Enforcement

- Evaluate your portfolio on continual basis
 - Periodic review by inside IP counsel or outside counsel
 - Chart claims against competitors' products
 - But be mindful of potential for disclosure in subsequent litigation
- Scrutinize your patent(s) the way a competitor would – look for:
 - Prior art recited after prosecution is closed
 - First Office Action allowances
 - Use of affidavits to overcome prior art—either date or substance
 - Applicant failed to cite any or minimal prior art
- Act to correct any errors
 - Under AIA, patentee can use Supplemental Examination to “consider, reconsider, or correct information believed to be relevant to the patent” to preemptively attempt to inoculate a patent against inequitable conduct charges

Infringement Lawsuits—a Fact of Life for Patents to Gain Respect

■ When should you enforce

1. You have lost sales to a competitor
 - sue to ensure future sales are not lost
 - sue to be reasonably compensated for lost sales
2. License negotiations have broken down
 - forces parties to spend money and incur inconvenience and burden of preparing for litigation and meeting court-imposed deadlines
 - some companies will not want to disclose sensitive and confidential info
3. Competitor shows callous disregard of your patent(s)
 - often accompanied by dramatically lower price

■ Always consider

- Will the dollar cost to litigate outweigh the damage
- If you do not litigate, will you lose market exclusivity
- Will failure to enforce lead to price erosion
- Significant “cost” of disruption to business if you do litigate

Timing of Litigation

- Relative to negotiations, if too early your competitor may be able to modify its technology
- If royalty revenue is true aim, when competitor's product is more entrenched in marketplace license is more likely
- What value is at risk to parties now versus later
 - If cost to litigate is less than cost of royalties, infringer more likely to litigate

Now That You Have Decided to Litigate

- Define the objective
 - Injunction?
 - License?
 - Damages? How much?
 - Customer goodwill
 - Publicity

- Prepare your case upfront
 - Analyze strengths and weaknesses, risks and rewards
 - Be prepared for discovery (including ESI, patent documents, prototypes, etc.)
 - Preserve evidence (litigation hold)
 - Have outside counsel do adequate pre-filing investigation
 - Get budget estimates

Pre-filing Investigation

- Study the accused technology
- Construe the patent claims
- Apply patent claims to accused technology
 - Usually results in a claim chart

Giving Notice to the Infringer – Should You Do It?

- Why?
 - Necessary to start the clock running on damages
- Factors to consider
 - Whether decision to sue has been made or is still under consideration
 - Whether you have marked your patent number on product Whether you want/need to flesh out additional info about structure or operation of the infringing product
 - Tone you want to set
- If you decide you should not take action (e.g., market too small, competitor's product inferior, price insufficient to justify suit costs, etc.), consider that circumstances may change
 - Later notice will result in inability to recover damages up to that point

Giving Notice to the Infringer – How

- Notice letter or other communication to infringer
- Filing infringement action deemed actual notice
 - But damages clock does not start until case is filed
- Marking
 - Number on product or using “internet marking” per AIA
- But, once you give notice, you must follow through until resolution
 - If this becomes impossible or impractical, preserve the claim by communicating to the adversary that though you are not going to pursue litigation, you are not waiving that right
 - If you do not follow up, laches and equitable estoppel may preclude claim

Downside to Giving Notice

- “Wrong” wording of notice can lead to declaratory judgment action
 - Infringer becomes the plaintiff, controls venue
- Right way vs. wrong way
 - Right way: firm but non-threatening (advise infringer of your patent(s), that the patent(s) claims read on identified products made, used or sold by infringer, and that you are willing to discuss possibility of licensing your patent(s))
 - Wrong way: blunt or smug accusations (“your product infringes my patent and unless you stop now, we are going to sue”)
 - Wrong way: wishy washy (“you should look at my patent(s) because I think they might relate to your product line”)

Other Considerations

- Do not think that because you do not practice your patent you cannot enforce it
 - NPE's have the right to enforce their patents same as companies that do
- Do not hire inexperienced counsel to represent you
 - Either in prosecution or litigation
 - But that does not mean you have to hire the most expensive counsel you can find
- If you cannot afford to hire attorneys, do not think you are without recourse
 - Consider partnering with a patent enforcement company or attorney working on contingency
 - Patent enforcement companies specialize in assisting patent owners whose patents have been infringed
 - Work on contingency basis, managing and financing the entire patent enforcement campaign

Thank You. Go Invent.

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