

[EDITOR'S NOTE: Due to a technical error, the first minute of the webcast was not recorded. We apologize for any inconvenience.]

MICHAEL GOGGINS: Our two panelists today are Kenneth Brothers and Megan Woodworth, both of Dickstein Shapiro. If you have any questions, please mention them in using the chat function and we'll attempt to work in all questions as appropriate or we may reserve them to a question [and] answer session that will follow at the end of the program. Megan?

MEGAN WOODWORTH: Thank you, Michael, for that introduction and welcome everyone, good afternoon. As Michael said, we're going to be discussing cost effective strategies for maximizing the value of your intellectual property at a minimum cost.

"Money for Nothing" is the title of our first slide, and this is not just a song by—is it Dire Straits, Ken?

KENNETH BROTHERS: Yeah, the classic Dire Strait's song about MTV.

MEGAN WOODWORTH: But it actually is a good representation for the possibility that intangible assets, such as intellectual property, can actually be something extremely valuable for corporations.

As you can see here, there are some estimated annual licensing revenues that just one such corporation—IBM—receives every year. I saw the numbers kind of all over the place when looking into this, but the minimum value that I saw at this is \$200 million up to \$1.5 billion in revenue, just from licensing their intellectual property.

We've also seen the value that IP can bring in in terms of verdicts or judgments during litigation. Just this summer alone, there was a \$1.67 billion judgment against Abbott Laboratories in our pharmaceutical case. As many of you are probably aware, there was also an injunction against Microsoft that went along with a \$290 million judgment. So, intellectual property, when enforced, can result in very high value.

KENNETH BROTHERS: I think the lesson to be taken here for most large defendants [is] they believe that these verdicts—especially obtained by non-practicing entities and trolls—are not justified. But to the patent owners, they believe that these intangible assets are worth a substantial amount of money and they're going to continue to come after those people who believe should be paying for use of those assets.

So, one of the takeaways here is not only to understand what assets that your corporation has, but preparing and defending yourself, and knowing how to best defend yourself, against claims for others who think that your employer is using those assets.

MEGAN WOODWORTH: And not only is there significant value in these assets, but studies show that the value is actually increasing greatly over the past several decades. You can see the statistics here show, in a study from Ocean Tomo, that in 1975 corporations considered intangible assets, such as intellectual property, to account for only 16.8%, and that value has risen every time the study has been done to nearly 80% of the value of assets in 2005.

But even given these incredible values, the majority of corporate executives continue to say that IP is not being value maximized. Historically, litigation, including intellectual property litigation, increases in time of economic downturn, but studies recently has shown that this is not happening with this downturn. Rather, budgets are being cut across intellectual property, and they are not seeing the upturn in intellectual property litigation that they would expect.

KENNETH BROTHERS: I think that one of the lessons that can be taken here is to understand if there are assets within your corporation, knowing how to leverage those assets and get value out of them. A lot of in-house counsels simply do not have time to properly evaluate and figure out how to extract value from their intellectual property. Skilled outside counsel can provide an IP audit and help you understand where value might be found.

There was one case that our firm did in which a client asked us to do an IP audit, and we actually did that on a contingency basis and sold IP assets that the firm was not using, and we took a contingency percentage of that asset sale. It was in the tens of millions of dollars. And the client was happy. Our firm was happy. That's an example we'll get into a little bit deeper of how unused IP assets are just lying fallow until in-house counsel took the initiative and brought in revenue from those unused assets.

MEGAN WOODWORTH: Thanks Ken, and as you said, IP audits are going to be a significant portion of our discussion today in determining how to maximize those assets.

But before we talk about that, we need to talk for just a minute about what it is that you are trying to maximize. And again, to go back to the IP Primer Info Pack that is available on the ACC Web site, there's a lot more information about each of these types of IP protection, so we're not going to go into them in detail here except to lay out what they are.

The types of IP protection that we're talking about today are: patents, copyrights, trademarks, and trade secrets. And while there are a lot of differences between these categories of IP in terms of what it takes to obtain the rights, how you need to perfect those before enforcement, [and] the duration of the rights, there's also a significant amount of overlap that one needs to consider. In terms of for any particular product, there may be ways to cover that product with more than one type of IP protection.

An example that I give here is Microsoft's Windows operating system. There are portions of that system that have been protected by each one of the intellectual property types. There are obvious copyrights to some of the software code, as well as some of that may be kept trade secret. The name Windows itself has been trademarked by Microsoft, and, I would imagine, although I don't know for sure, but I would imagine that they have obtained several patents to cover different functionalities of that system as well.

KENNETH BROTHERS: Certainly, others claimed to have obtained patent for that functionality.

MEGAN WOODWORTH: That's Right. And depending on what type of corporation you are, it may differ what types of intellectual property are most valuable to you. For example, a newspaper printer or magazine publisher is going to have significant amounts of copyright

protection, whereas a pharmaceutical company is going to be much more interested in obtaining patent coverage over its products.

On the right-hand side of the screen, we've listed just some of the reasons that companies choose to protect their intellectual property. We're going to talk in much more detail about some of these, including using the intellectual property as a revenue source, as a trading card—kind of the leverage idea that Ken talked about earlier—or as an asset to attract investors. That again indicates that, depending on what type of company you are—a startup company is obviously going to have a significant different take on intellectual property than an established third-generation consumer product manufacturer would.

So, turning to ways to maximize your intellectual property, one topic that comes up over and over again in many different forms is: performing an IP audit. As Ken said, this is something that be performed either in-house, or exclusively through outside counsel, or in any efficient combination thereof.

Talking about internal audits, a couple of the reasons, again, for performing these, and this will explain how you are going to be maximizing your intellectual property by performing an audit. An internal audit should first help assess the economic and strategic value of your company's IP portfolio. It should help you determine the character and scope of your IP program. And that's actually one of the very first steps, is determining where it is that you're going with your IP.

Third, it helps ensure that you have clear title to all intellectual property. And with respect to ownership, that's kind of a two-prong analysis. You first and foremost need to make sure that you do have the legal rights to ownership. This requires a review of employment, development, [and] consulting agreements as to the relationships that you have with the different individuals that may be generating the IP for your company. And then, second, there are technical or legal requirements to perfecting that ownership. This may include preparing written assignments and filing those with the appropriate entities, including the Patent and Trademark Office or a UCC filing with the Secretary of State.

And finally, internal audits can be used, not only offensively but defensively to identify any potential sources of liability and to ensure that where there are gaps in the coverage between your technology and your intellectual property that you are proactively doing something to minimize those laps.

KENNETH BROTHERS: We find that there are three different types of IP audits. The first type is simply to identify: What do we own? What assets do we have? And do we in fact own them?

Second is: Once that identification is made, how much are they worth? Can we get more money out of those assets?

The third type of IP audit is: Are we at risk? Are we using our assets properly? Does our use of these assets perhaps subject us to other liability or, in fact, does our business expose us to potential liability and how can we minimize those risks?

The IP audit can be any one of those three, or it can be all three of those put together, but they each have distinct objectives.

MEGAN WOODWORTH: Most of what we will be talking about today will be on a more general level that will try to encompass at least some characteristics of all three of those types that Ken just identified.

If an IP audit is done internally—or not—it does make sense for most companies to set up an IP committee. One purpose of this committee can be performing such an audit. It can also be just for shaping the overall policies of a company's IP protection program.

The membership is an important decision that will need to be made in terms of who should serve on an IP committee for a company. You should ensure when setting this up that you're going to have coverage of different departments, from engineers all the way up to corporate executives and the marketing, as well as coverage of different offices and/or various product lines of the company to ensure that everyone's voice is being heard and that the IP decisions are going to be implemented and effective for the company.

KENNETH BROTHERS: We recommend that the IP committee be under the direction of an in-house counsel so that everything that the committee does is subject to a claim of privilege. So, it is important that in-house counsel be properly trained to ensure that the privilege is established and does respect it. Good outside counsel can provide guidance on how that should be done. Outside counsel can be a member of the committee, but that is less typical. Usually, these are internal committees that can be established with the guidance of outside counsel, but the day-to-day operation is typically in-house.

MEGAN WOODWORTH: Turning now to the IP audits, we have the three general steps that are involved in any type of audit. The first step is determining the business goals from IP. And although there isn't much to say about this step, I can say that it is going to be the most critical step that there is in the IP audit. Every company of every size and flavor should be able to clearly and concisely articulate how intellectual property fits into its overall business plan for the company. And if you cannot do this, then I can almost guarantee that you are not effectively maximizing your intellectual property.

The second step is inventorying your IP. I have some example categories that you can break down this inventory into, which is by product line, by lifecycle—meaning when did the protection begin through how long will you have it, and again, that varies depending on what type of intellectual property it is—the value to the company, and the value to competitors.

To perform this inventory, it will take a significant amount of work, whether it's done in-house or externally. You need to talk to people at all levels, including the legal department, the corporate department, the marketing department, and those on the floor—the engineers themselves. You'll need to collect the relevant documents and data from all of these sources.

And we always recommend doing an actual tour. For example, if this is a manufacturing company, you need to see what exactly products are being made [and] how they're being made to determine whether or not everything that's going on there is adequately protected.

Finally, we recommend an objective search of third-party records. This, again, as we talked about, will go towards ensuring that you have the proper ownership documents in place including a search of the PTO records and the UCC records for both patents and trademarks.

The third step that we have generally listed here is then creating an action plan to ensure that what you've identified and categorized in the second step is being utilized in line with the business goal that you outlined in the first step. Our next slide will go into more details of that action plan.

KENNETH BROTHERS: Let me just jump in by pointing out that there are a number of corporations that start off with an IP audit and do not finish it because it gets pushed down the priority list, because other fires are more brightly burning. It is important not to let this go undone, especially if your objective is to either bring in additional revenue or to protect your company against potential risks. Unfortunately, that isn't always the case. So, when going through an IP audit, it's important to be able to see it through.

MEGAN WOODWORTH: Turning now to these action items to consider, this is just a listing of five different items that you can take moving forward to make sure that you are utilizing your IP in line with your goals. The first is licensing out or selling intellectual property. Ken alluded to one example of a selling of property that we conducted for a client earlier this year.

There are also numerous third-party auctioneers such as Ocean Tomo, which I spoke of earlier. In addition to their intellectual property consulting that they perform, they call themselves an "intellectual property merchant bank." And they hold approximately three auctions per year and then take a cut across the top, which I've seen as about 10% on the sales. And I have numbers here to tell you that these are effective ways of selling intellectual property. From one such auction in 2008 alone that Ocean Tomo performed, there were \$19.25 million in patent rights sold at that auction.

KENNETH BROTHERS: We find that many of the companies that perform these IP audits and elect to license out or sell their assets relate to assets that are strictly not being used. They are laying fallow within the corporate resources and in many ways it's found money. And when a legal department can come forward and say, "Look how much money we can bring to you," that's a good way to get some "Attaboys" from the big bosses.

MEGAN WOODWORTH: In addition to this selling, you can also begin a licensing campaign. These campaigns can be as large or as individualized and targeted as you desire. A demand letter for a license can be sent to any one competitor or target, or it can be industry wide.

KENNETH BROTHERS: On that issue, many of our clients engage in cross-licensing. And being able to objectively value the portfolio, or portions of their portfolio, and being able to identify the hidden gems that might be there can help extract further concession in licensing or cross-licensing negotiations. If you don't know what's in your portfolio or how valuable it may be, you're leaving money on the table in your negotiations.

MEGAN WOODWORTH: Licensing and cross-licensing are exactly the next two action items that are listed here. And that's exactly right, the one thing to consider with respect to any of these licensing opportunities is that because these are done generally outside the scope of a litigation, you have two companies trying to reach an arm's-length negotiation, and therefore both have to see the terms as agreeable and favorable to them. And as Ken just said, if you don't know what it

is that you are putting out there, it is pretty hard to convince anyone else that the terms are agreeable to them.

A few items that need to be considered in the terms of any license, whether it be licensing out, licensing in, or cross-licensing, are: What should be the term or the duration of the license? What should be the exclusivity rights? Should the licensee be able to further sublicense? And if so, does there need to be a kickback to the licensor?

Termination is another term that is often negotiated in terms of: What reasons are sufficient for terminating a license. And what effect does that termination have? These are all things that, as the owner of the intellectual property, you need to consider before any licensing campaign or demand letter is sent where licensing is the end goal.

The next bullet point is: enforcing intellectual property. Again, this may start with a demand letter or licensing campaign and be the end result is that a negotiation falls through or that there are not agreeable terms to both sides. We'll talk more about enforcing intellectual property, and if that is the action item, how does [one] continue to minimize the cost if that is the route that is taken.

And the final bullet point here is: eliminating needless maintenance costs. If the result of the IP audit finds that you actually have intellectual property that you're not using and that likely would not be valuable to any other competitor or company, the end goal may be then to just eliminate needless maintenance costs, which can be significant over the years. An example of this is Toshiba's high definition DVDs. They had a significant amount of intellectual property rights surrounding the high definition DVDs. And in 2008, they made the decision to follow the industry trend and to switch over to Blu-Ray. That is an example where at that time there was likely a decision regarding: How valuable does this intellectual property become if we are no longer using the technology that's at the core of it and no one else is either? Eliminating maintenance cost may be the only thing that you can do to minimize cost of your intellectual property.

KENNETH BROTHERS: It may also be possible to donate intellectual property to a university or to some other kind of 501(c)(3) and get a significant tax benefit to it.

MEGAN WOODWORTH: Although I will just say check with your tax attorneys before doing any such action.

KENNETH BROTHERS: We are not giving tax advice here, and do not put it in a Swiss bank.

MEGAN WOODWORTH: We're switching over now to minimizing the cost. We've kind of gone through some of the steps that we think any company should take in order to determine what they're intellectual property is and how best to maximize that. Now that you're putting these action items into play, how can you minimize the cost?

The first bullet point that we have is: efficient divisions between in-house and outside counsel. We're going to talk more in a few minutes about choosing outside counsel and fee arrangements that will be most reasonable for your purposes. But just in terms of the division, this really needs to be given some thought: What is the most efficient and effective way to utilize both in-house

attorneys and outside counsel? You want to ensure that you're minimizing the overlap of work being done, but that you are not spreading any one attorney too thin. You also need to limit the need for any attorneys to continuously get up to speed on either your portfolio or technology, so the more that you can use the services of the same people, usually the better, in terms of efficiency.

KENNETH BROTHERS: When making this investment in the IP audit and trying to maximize the value of your IP assets, the investment needs to be managed in such a way that you're not having an unlimited or unknown budget. We strongly encourage you to identify the budget amount that is going to be allocated to it and figuring the most effective way within that budget amount of accomplishing your objective. This can be done using outside counsel on a contingency basis. So if you know you have assets—or if you think you have assets that are there—to get outside counsel without direct payments to them, but rather taking a cut of what assets may be found.

MEGAN WOODWORTH: The next two ideas really relate to obtaining the intellectual property protection and ways that you can minimize costs in doing so. The first is with respect to government fees with regard to any of the registrations that are required of the intellectual property types. There are, no doubt, government fees that go along with them, so making sure that you are working with counsel that understands those government fees and understands how to minimize them.

A couple of examples that we have here, one is: unnecessary extensions. A couple of others are: small entity fees, when those are appropriate. They typically cut in half the fees that are owed to the patent office. Other examples are: narrowly tailoring the coverage to, for example, domestic versus foreign patent trademark protection, or to more narrowly tailor the patent coverage that you're seeking. This may also have the added benefit of reducing the time of prosecution, which obviously will reduce not only the government fees, but also any external costs that you have from attorney time.

We're moving on now to selecting outside counsel. I wanted to remind everyone that if you have any questions, we will most likely not be stopping during the presentation, but we will hold those questions [until] the end. Please, as they come up, e-mail them into your screen there and we will again take those questions at the end.

Selecting outside counsel. The first step, as we just talked about, is determining when to use outside counsel and dividing the duties with in-house counsel. There can be division decision made for all aspects of intellectual property protection including obtaining, maintaining, auditing, commercializing, and enforcing your intellectual property. The division of work may be different for each step of that protection. For example, you may have maintenance done completely externally by either outside counsel or there are third-party vendors that perform this function.

KENNETH BROTHERS: I think that it is important in selecting skilled IP counsel who know how to conduct an audit and who has done audits a number of times. As long as you have skilled IP counsel with that familiarity, you should be on a strong footing. If your relationship with your outside counsel does not include a firm that has that kind of skillset, it's important that you find

somebody to do so. You do not want this IP audit being done by a general practice firm or somebody who is not familiar with specifically valuing IP assets.

MEGAN WOODWORTH: And one of the things that I was going to say in selecting your firm is exactly that. Determining whether or not you wanted to go with specialists, if you will, or a general practice firm may again depend on which aspect of intellectual property protection you are looking at, and also what your other business needs are. You may need a general practice firm to handle other types of the legal work that your company has and would prefer to keep that all under one roof.

Other considerations to keep in mind when selecting outside counsel is whether or not location is important, either proximity to your business or proximity, for example, to the litigation that you're a part of. You may be handling litigation solely in-house and need nothing more than a local counsel, which is obviously going to change the selection process.

Finally, you need to keep in mind your business goals and whether or not outside counsel matches and fits within those. For example, many Fortune 500 companies are pushing diversity initiatives and are selecting counsel that fit with that mindset and that fit the criteria outlined in those initiatives.

And the third step that we mentioned here for selecting outside counsel is ensuring that you're controlling the costs.

KENNETH BROTHERS: On the issue of cost, I see one of the questions that has come in are the cost for IP audits. And the answer to that is: It depends. It can be as little as a few thousand dollars to do an initial identification if the client's files are in good order, or it can be in the six digits to do a comprehensive analysis and development of strategy for maximizing those assets. So, it entirely depends on what shape the client files are in.

The next screen that Megan has just gone to in talking about alternative fee arrangements is to illustrate the number of alternatives available in identifying cost options. The billable hour is the default for most outside counsel relationships and it is still being used in approximately 80% of all matters. But there is an increase in alternative fee arrangements, which we have listed the many different flavors that are here.

I know our firm has used a number of these alternative fee arrangements, and we have used about four or five of these in performing IP audits. One that I referenced was the 100% contingency, where we bill the client nothing in exchange for coming in and taking a sliding scale of assets. I think initially it was around 15% up to a certain threshold, and then it fell back to about 10% if we were able to sell more than \$20 million, in that ballpark. The client was delighted with the results that we were able to obtain.

But the other types depend on what your business objectives are. If you have set a budget to perform an IP audit for about—I don't know, picking a number—say, \$50,000, and come up with a comprehensive strategy that should include an attempt to get an initial valuation of what those assets might be worth. That could include getting some economic assistance or some accounting assistance that not a lot of law firms may have in-house. So, it may need to team your efforts with outside counsel, third-party consultants, as well as the in-house audit committee.

MEGAN WOODWORTH: Ken raised a good point with regard to using these alternative fee arrangements in, for example, the auditing role. It's important to keep in mind that not only are there as many alternative fee arrangements as you could imagine, but that they can be used for any type of work that intellectual property protection requires. It is not just the standard contingency litigation anymore, and both our firm and others are becoming much more open than they used to be to these alternative billing arrangements. They can be used for any type of trademark and patent prosecution. For example, we do have, at our firm I know, some clients that are on fixed-budget patent prosecution and trademark prosecution schedules. They can also be used for opinion work and preparing and handling any type of IP sale, licensing campaign, and then, of course, the litigation, which most people are most familiar with.

KENNETH BROTHERS: In going to the next slide, we talk about some of the points that we have found are important for an alternative fee arrangement. An important aspect of alternative fees is that it forces outside counsel to be as efficient as possible and use as much planning in advance. It also encourages efficiency, which includes efficient use of technology. Much has been said about the inherent inefficiency within the billable hour model, which is why good alternative fee arrangements can impress outside counsel to improve their abilities and their efficiency. An ideal alternative fee relationship will enable outside counsel and the client to adapt to changing circumstances [and] to be adjusted in terms of unexpected events. It enhances a trusting relationship. There should be greater transparency in proper alternative fee agreements between outside counsel and the firm. Ultimately, it needs to make sure that the firm and the client's business goals are on the same page.

MEGAN WOODWORTH: I think, in that respect, that is part of the way that it does enhance that client-counsel relationship in that you are putting both of your goals, or aligning them I guess, as the bullet point says here.

So, when will alternative fee arrangements work? We've said here a couple of the ways in which they will work. It does not depend, as we just said, on the type of work, but rather it depends more on the parties that are involved. As Ken said, mutual trust between client and counsel is essential.

KENNETH BROTHERS: Let me jump in there. We have found it very difficult to start a client relationship for the first time on an alternative fee relationship. We have done so, but it is important that outside counsel and the client have that trust and understanding that neither side is going to take advantage of the other, so there is as much transparency as possible. Without that mutual trust on the financial side, alternative fee arrangements are going to be under continual pressure and not likely to be repeated in the future.

One other point I would add here is that there can be safety valves in the alternative fee relationship. So, in the screen where we had all of the options, we referred to the safety valves or here it is a "true up," so at the end of the year you can consult between the client and outside counsel to essentially see "How are you doing?" and make sure that both sides are being treated fairly.

It is also important that each side be truly committed to that alternative fee relationship. I am surprised at how many of our clients we discuss and give alternative fee proposals, but they are

not willing to do it. Ultimately, they will say, “Let’s go with the billable hour model,” because they just do not have the existing support within their organization to take the risk for an alternative fee relationship even though most alternative fee relationships actually shift risk onto the firm and away from the client. For that reason, we have found that billable hours are the safe fallback because they are known and they are predictable. But I do believe that an increase in alternative fee relationships are going to be the trend of the future.

MEGAN WOODWORTH: We’re seeing that already, whether it’s the turn of the economic downturn or just the end of the billable hour, as some have said.

Now, moving on. Minimizing costs in other respects—not just with respect to the selection of counsel—particularly with the respect to enforcing and defending intellectual property. Large intellectual property litigation now costs in the millions of dollars per suit. Our very first piece of advice here is: consider the alternatives before launching the nuclear attack. We’ve talked before about some of those alternatives, whether it be a licensing or a cross-licensing campaign or some other type of negotiation prior to initiating a lawsuit.

KENNETH BROTHERS: I just received in the mail the AIPLA economic survey. Every other year they do an economic survey to determine how much it costs to litigate IP cases. For patent cases which have more than \$25 million in dispute, the low number to litigate those cases is \$5 million. The average can approach \$10 million to litigate those cases through trial. The numbers go down with less at dispute, but patent cases are among the most expensive type of cases to litigate because you are guaranteed what is, in essence, two trials. There’s the Markman hearing to construe what the patent actually means, which can be as intense as a trial, because you have a number of reports, arguments, and briefs submitted to the courts, and then, once the claims have been construed, you go into the actual fact finding component.

So, you are guaranteed to have substantial expert expenses as well as substantial attorneys’ fees, especially if you are using a firm that we call using a “bolt-on model,” bolting a general litigator onto somebody with technical background, so everything that the firm does is this four-legged, two-headed monster, and you get the benefit of paying double the cost for everything.

MEGAN WOODWORTH: Other ideas are listed here in terms of how to lower the cost of what is undoubtedly going to be a very expensive undertaking. The first idea is to choose an appropriate forum. Again, this needs to be done with what are the business goals that you have in mind. Is it merely to extract the top dollar value that you can from a competitor? Or is it to get a speedy resolution of a dispute? Or is it to ensure that you get an injunction that will prohibit a competitor from taking some action, such as using technology or using a particular brand that you have worked hard to maintain? So, those are the business goals that you need to keep in mind in selecting the forum.

A couple of the sub-points that we have here: the first one is ADR, which is alternative dispute resolution. I know that Ken has recently been involved in at least one of these where, rather than litigation, they went through an ADR process.

KENNETH BROTHERS: The parties can agree, especially in the context of a negotiation, that if there is a fundamental disagreement as to whether an accused or potentially accused product

infringes the patent, or if a patent is valid or not, the parties can agree to take that to a private dispute resolution and abide by the terms of that. And typically, that can include ranges for how much might be paid in the event of certain findings by the arbitrator. It can be an effective and very inexpensive way to break through negotiation impasses that might otherwise have to be resolved through litigation.

MEGAN WOODWORTH: Other forum selection points that you need to keep in mind in order to minimize costs are: Is there a particular district court that is most likely to meet your business goals, if you're talking about patent litigation? Or is the International Trade Commission a possibility? The PTO is the final one that I have there, as reexaminations have been a very valuable and increasingly utilized tool in order to challenge the patent rights of another. And interference, which is actually something much less frequently used, but it is something that I was recently involved in, is another way to, again, challenge patents that have already been issued.

KENNETH BROTHERS: I think that it is important that if your employer has been accused of infringing a patent, that you consider reexamination of that patent. It's relatively inexpensive and can threaten the patent being asserted, so always have that as a checklist on your choice of options.

MEGAN WOODWORTH: A couple of the other points that we have here for minimizing costs once litigation has been initiated, and that is electronic discovery and defining the scope of discovery. The federal rules were amended a couple of years ago and they now create a large burden with respect to electronic discovery. Compliance by companies, plaintiffs and defendants, can be time consuming for all relevant employees, and undoubtedly expensive. So, one thing that I know we preach here is attempting to limit or define the scope of discovery in order to limit that time and expense to the parties.

KENNETH BROTHERS: I had a case just a couple of months ago in which our client was sued for patent infringement. And the initial demand was in excess of \$10 million. To collect all of the ESI would have included collecting from 40 or more different custodians and a considerable amount of servers, and would've cost likely in excess of a half-million dollars. I took a very aggressive approach with the other side and said I was only going to collect for five or six individuals. I disclosed the search terms that I was going to use and told them why I thought those people were the most important people, and gave them a week to weigh in. While they objected, ultimately they agreed and I was able to limit the scope of the search and do a complete response to these global document requests for about \$70,000, and that included both vendor costs and attorneys' fees. The case settled soon thereafter for about a third of the cost of defense, so our client was happy with that. But that very aggressive way of managing ESI was an important way to minimize the costs and the exposure to my client. So, it is important that in cases where you are involved in ongoing litigation you have a very specific strategy for handling your discovery.

MEGAN WOODWORTH: I think one point that you raised that's a very good one is that you should try as early on in the case as possible to reach that agreement with the other side. Because of these new rules from the federal rules, it's not quite clear how broad of a show some courts are going to read them to take. Making sure that you have reached an agreement with the other

side can undoubtedly save any potential disagreement as to whether or not you've complied with the rules down the road.

KENNETH BROTHERS: We have a couple of minutes left before we turn it over for questions, so let's quickly go through the last couple of points here. We've noted how expensive independent expert fees can be. We have found, on average, expert fees run about 12% of attorneys' fees in patent cases, so that is something that you should factor in in developing your budget.

Insurance can be available if you're accused of certain types of intellectual property violations. For example, insurance may be available under advertising insurance if you are accused of trademark infringement. It can be covered for certain types of copyrights. Even trade secret misappropriation may be covered under your company's insurance policy. It is very rare for insurance to cover the defense costs for patent infringement. There are policies that can be purchased that cover it, but just keep in mind whether insurance may be available to at least cover your attorney's fees based on the accusations against your company.

Finally, we have noted how you can limit the scope of damages and claims, for example, of willful patent infringement. The law has been changing. It is harder to get damages for willful patent infringement, and there are ways the can manage it that goes a little bit beyond the scope, but there are specific strategies that we discussed, for example, in the IP primer, of how you can limit your exposure for damages to willfulness. You can also take an aggressive approach to redesigning your accused products to narrow the scope or eliminate the risk of future infringement.

Unfortunately, we agreed that we would end at 25 minutes past the hour to open up for questions from the audience. I know that Michael has been monitoring questions that have been coming in, so we'll turn it over to Michael and see what questions there may be.

MICHAEL GOGGINS: Thank you, Ken. Before we get to the questions, [there is] one point I wanted to make. David Kappos, the U.S. PTO director, spoke at our annual ACC conference a couple of weeks ago in Boston, and one of the points that he made was one of his goals to speed these reevaluations, because he's very sensitive to the costs that companies have in patent litigations. As you mentioned, it's going to cost millions of dollars, usually, to litigate a significant patent, so I look forward to that, to increasing the efficiency and accuracy of reevaluation. He wants to get it to where it's under a year from the time the reevaluation starts to the final decision.

One question that we had here is: How often do you review your IP audit or inventory guidelines and adjust them for the changing business practices?

KENNETH BROTHERS: I'll take that one. The answer depends on how extensive the initial IP audit was. If there has been a global audit performed, so you have a reasonably good idea of what assets are available and what assets are covered, then performing a follow up audit is appropriate about every three years or if there is a significant market change, either by your own employer or by your competition. If there is a change by your competition where new products have been launched, where you have previously had R&D, or possibly have patent applications

or other types of IP, then you may be in a good position to extract some revenue from the benefit of your own company's R&D program. But other than that, on average, a rule of thumb we use is to update the IP audit about once every three years.

MEGAN WOODWORTH: I think using the word "update" there is the key. If you've done this right the first time, and doing it right upfront can definitely save what's necessary to be done down that road, and it will be nothing more than just an update.

MICHAEL GOGGINS: Another question that we have seen relates to a little bit greater detail with the alternative fee slide. People have been asking: How can you properly determine what type of alternative fee is ultimately going to be negotiated?

KENNETH BROTHERS: The answer is that in this economic environment the client has a considerable amount of leverage to determine what fee it is willing to pay. And firms are competing with each other to get the legal work. At a minimum, I would be surprised if there are any firms out there that are not willing to give discounts off the billable hour. But the key here, I think, is to get away from the billable hour model and to develop a fixed-fee or a contingency-fee approach to your cases.

And you can set it up as a client so it is a no-lose proposition for you. We had one client come to us and say, "We would like you to track your time in three different ways, first under this fixed fee proposal, second under a contingency arrangement, and third using a discount hourly model." And they said, "At the end of the engagement, we will pay you the lowest of whichever model we come out better with."

We negotiated with the client to establish what we thought was a fair and appropriate relationship, which included a bonus component at the end of the engagement that would correspond to the increased risk that the firm was negotiating for and the client was asking us to accept. That relationship worked because not only was the firm willing to do it, but we trusted the client. We had a good working relationship over a long history and we knew that the firm wasn't going to be left high and dry. Likewise, the client wasn't going to be overpaying for services that it might be able to obtain.

But having the initiative and the creativity to work with your outside counsel to develop a meaningful alternative fee relationship can be a substantial savings, especially if you can get reports from the firm that say, "This is how much you would have been paying otherwise," and you can take those reports to your GC or to other executives and say, "Look how much I've saved you." Most firms should be willing to do that.

MICHAEL GOGGINS: Ken, I have another question here along the same lines. How long does an IP audit generally take?

KENNETH BROTHERS: Again, depending on the audit, the initial evaluation takes between 60 and 90 days on average, assuming the information is readily available from the client. If there needs to be a detailed investigation and interviewing of engineers and collection of documents, it can take longer. But if the client has that information available and has the files readily available, on average, 60 to 90 days to come up with a comprehensive evaluation and recommendation for increasing the value of the portfolio.

MEGAN WOODWORTH: I see that we are out of time, so on behalf of Ken and myself, Michael thank you once again for moderating. Thank you everyone in the audience for tuning in. Michael, we will turn it back over to you.

MICHAEL GOGGINS: Thank you very much, again. Just as Megan said, I want to thank everyone for being here. Thank you all for your questions. Thank you, Kenneth and Megan, for a wonderful presentation, and thanks to the ACC for helping get all this together.

If anyone is interested in being part of the intellectual property committee at ACC, you can contact me or contact us through the ACC webpage. If you also go to the ACC webpage, you'll find lots of information, info packs—including the one that Kenneth and Megan wrote earlier that was discussed earlier—as well as several other fantastic resources that will help you in your practice. I encourage everyone who is in-house to become a member of that committee. Thank you.

Roberto, we have one more code to give, don't we?

[The CLE code and instructions provided here were for use only by attendees of the live webcast.]

ROBERTO SCALESE: On behalf of the Association of Corporate Counsel and SmartPros Legal and Ethics, thank you again for listening to today's program... This program is now concluded. Thank you again, and have a great day.