



701:Profiting from Your Company's IP Assets

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Faculty Biographies

N. Thane Bauz

N. Thane Bauz is currently counsel to the Boeing Company's intellectual property business in Irvine, California, where he is involved in all aspects of patent assertion, enforcement, and licensing.

Formerly, Mr. Bauz was a principal in a national law firm where his practice emphasized patent litigation and licensing. Mr. Bauz's patent-related legal experience also includes serving as a Judicial Law Clerk at the U.S. Court of Appeals for the Federal Circuit.

Ron Epstein

Ron Epstein is the vice president, general counsel of Brocade Communications Systems, Inc. in San Jose, California. As Brocade's first in-house attorney, Mr. Epstein created Brocade's legal department from scratch. In this position, he noticed that while there were plenty of very fine law firms, consultants, and the like that could solve parts of the overall IP problem, no one was focused on the big picture of putting these pieces together. In response, he has recently left Brocade to form, and is now the CEO of, IPotential, an "IP Investment Bank," dedicated to assisting clients in developing and executing world class intellectual property strategies to assist its clients in obtaining the maximum value of their intellectual property, from a business, strategic, and economic perspective.

Mr. Epstein started his legal career at Wilson, Sonsini, Goodrich and Rosati as a member of its technology licensing group, where he specialized in assisting firm clients in minimizing their liability under the patent portfolios of the major electronics players and in negotiating patent cross license agreements in conjunction with the settling of complex patent litigation. Later, Intel hired him as senior counsel and promoted him to director of licensing to close the holes in their IP strategy that he had been exploiting. At Intel, he was responsible for all aspects of Intel's intellectual property licensing strategy, including defending the company from assertions, settling litigation, and creating Intel's value licensing program.

He is an active member in the Licensing Executives Society.

Mr. Epstein holds a BS from Duke University and a JD from the University of California at Berkeley.

Taraneh Maghamé

Taraneh Maghamé is senior counsel in the intellectual property section of Hewlett-Packard Company in Cupertino, California, where her practice is focused on IP licensing and transactions, dispute management, and client counseling.

Before the merger between Compaq Computer Corporation and Hewlett-Packard, Ms. Maghamé was senior IP counsel at Compaq, where she managed all of the company's intellectual property litigation worldwide. Prior to joining Compaq, Ms. Maghamé was associated with the law firms of Brobeck, Phleger & Harrison in Palo Alto and Perkins Coie in Seattle, where she specialized in intellectual property litigation, licensing, and counseling.

Ms. Maghamé is an active member of ACC's Intellectual Property Committee, and the chair of its Advocacy Subcommittee. Taraneh Maghamé is also the chair of the trade secrets committee of the Intellectual Property Owners Association.

Ms. Maghamé received her JD, cum laude, from Georgetown University Law Center.


Stuart D. Smolen

Stuart D. Smolen is director of intellectual property for Immersion Corporation in San Jose, California. As director, Mr. Smolen manages all aspects of the company's intellectual property, including patent procurement, licensing and litigation.

Prior to joining Immersion Corporation, Mr. Smolen was an attorney at Bingham McCutchen LLP in Palo Alto, California, and at Kenyon & Kenyon in Washington DC, where his practice focused on all aspects of patent procurement, patent litigation, and intellectual property transactions in a broad range of technologies. His experience includes licensing transactions, joint research and development projects, acquisitions of technology and technology-based companies, financing of intellectual property, patent prosecution, patent litigation, and corporate counseling in intellectual property matters.

Mr. Smolen is a former law clerk to the Honorable S. Jay Plager of the U.S. Court of Appeals for the Federal Circuit in Washington, DC. He is a member of the bar in California, Virginia, and the District of Columbia, and is registered to practice before the United States Patent and Trademark Office.

Mr. Smolen received a BS, magna cum laude, from SUNY at Stony Brook, where he was Phi Beta Kappa. He received an MS and MPhil in physics from Yale University and received a JD from Columbia University School of Law, where he was a Harlan Fiske Stone Scholar.




**Session 701 Profiting from Your
Company's IP Assets**

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Stuart D. Smolen

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Large Corporations & Licensing

- Guts
- Bucks &
- Strategy
- Integration Issues

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Strategy

- Assess Potential for IP Opportunities
 - Licensing Programs are business model specific
 - Consider individual BUs business strategies/plans
 - How can IP augment the BUs' business plans?
- Understand the IP Portfolio
 - Focus: Greater utilization (*commercialization*) of IP assets
- Implement IP Strategy
 - Strategic Alliances, IP Sales, Assertions, Donations, Tech Transfer, Image Licensing, etc.

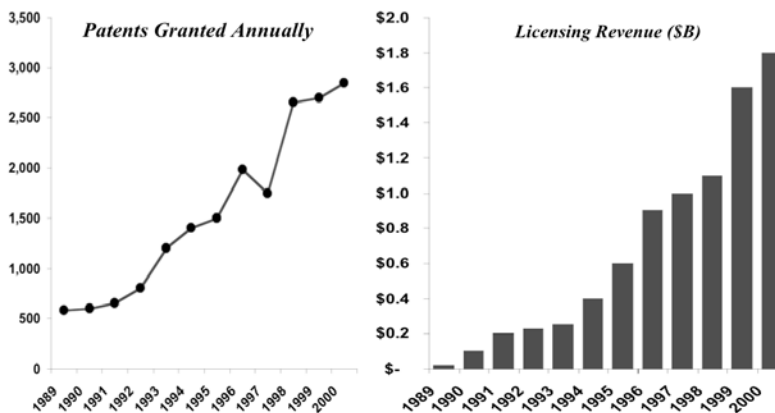
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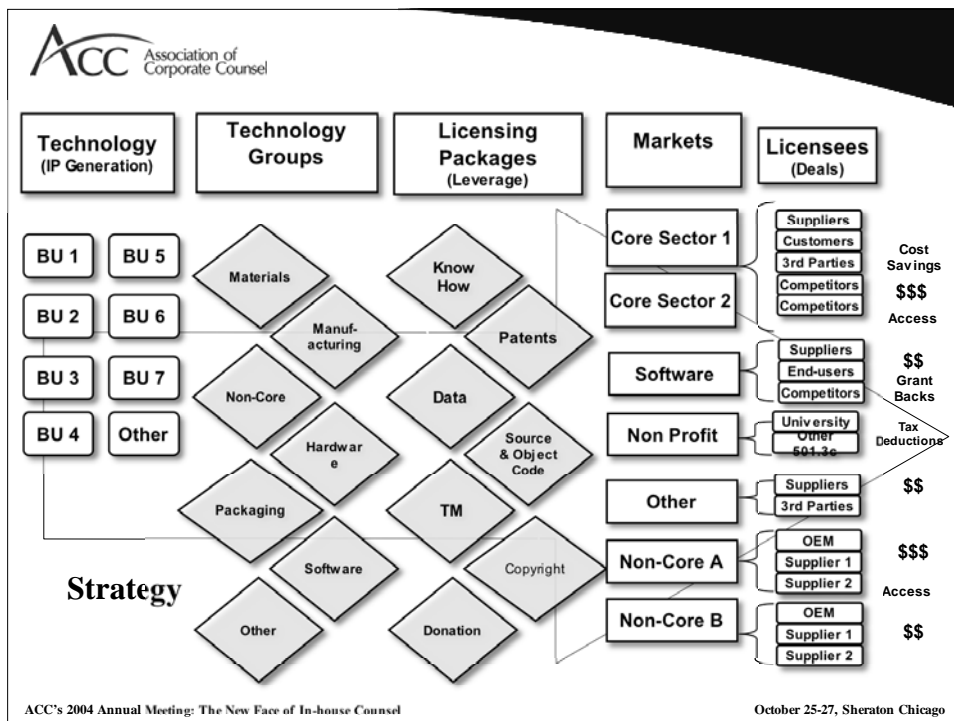
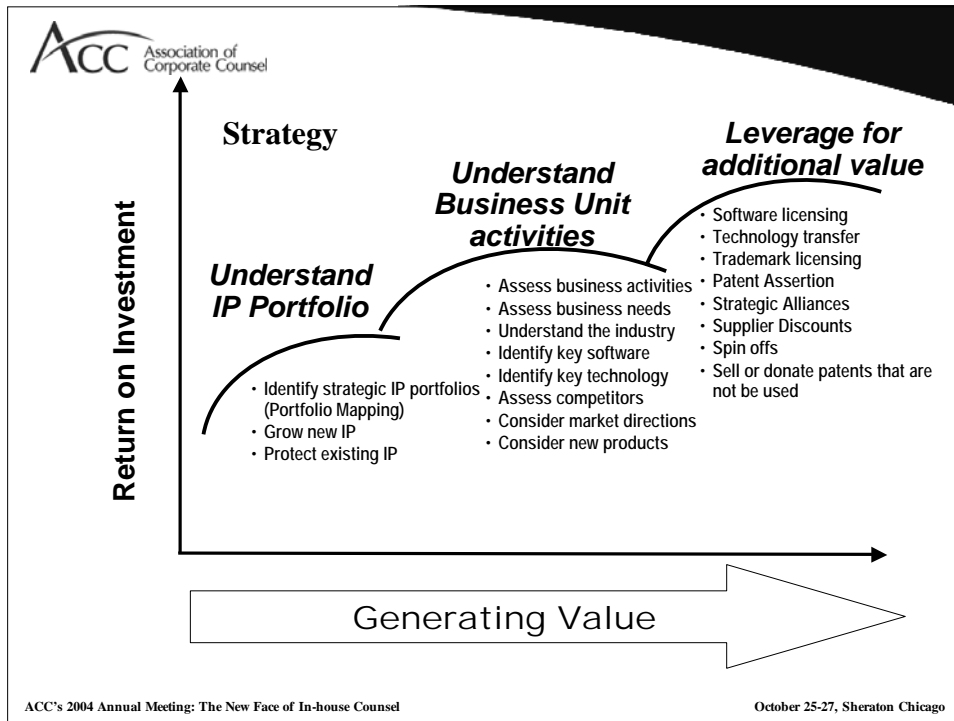
Strategy: Managed Expectations

Licensing Case Study: IBM, 1989-2000



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● Guts, aka Corporate Fortitude

- Bad Press
- Litigation & Counterclaims
- Strained Business Relationships
- Budget Deficits (aka Balance Sheet Fortitude)
- Internal BU Disruption/Internal Politics
- Job Security Issues
- Lost IP

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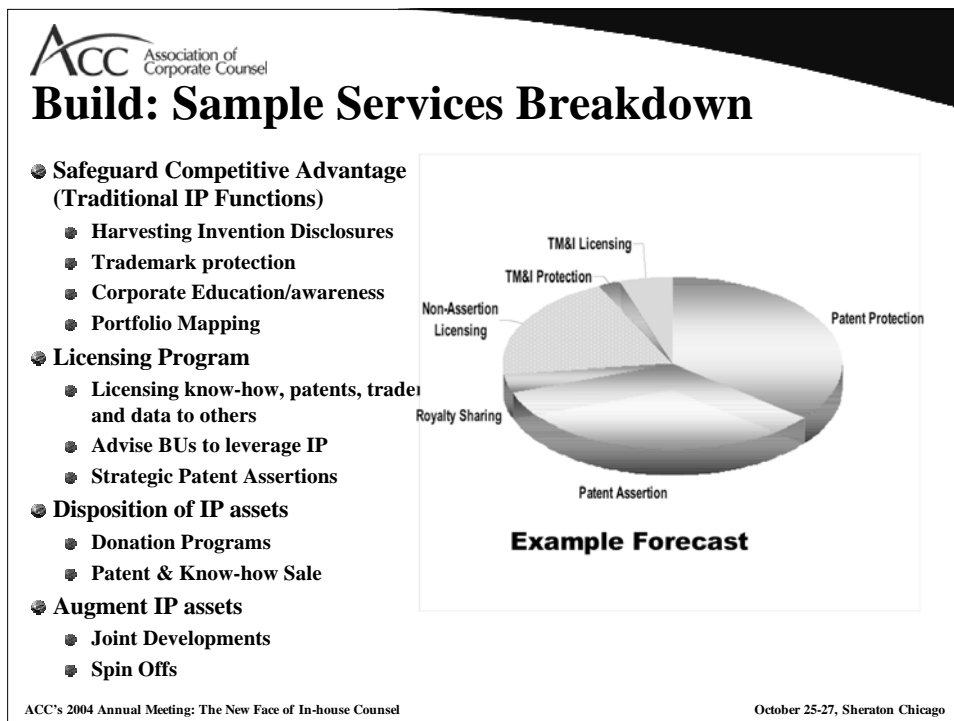
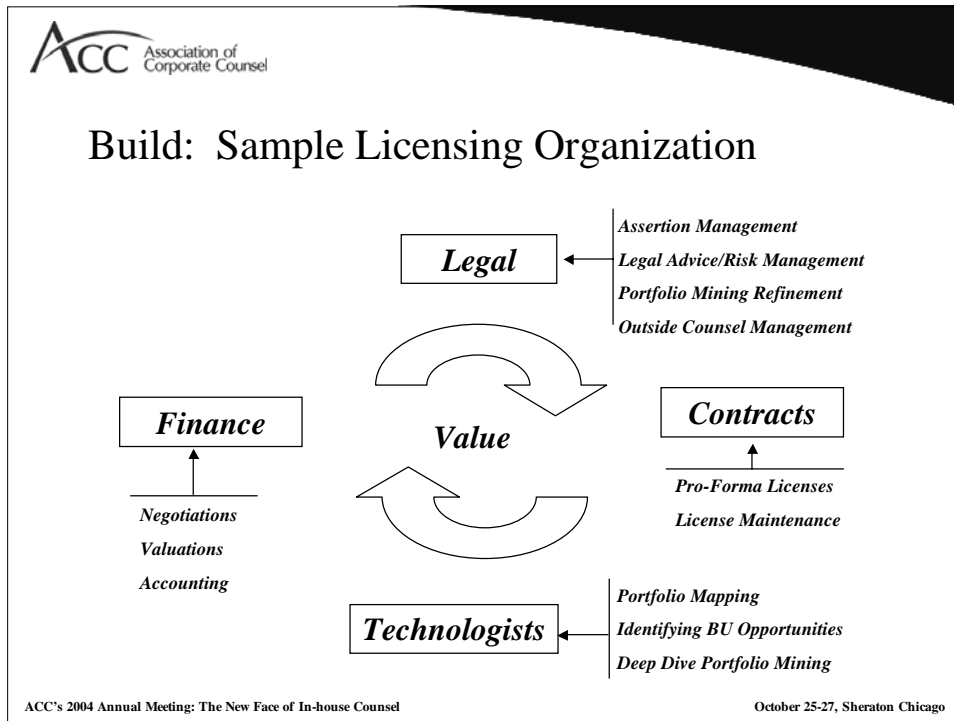


● Bucks

- IP is Labor Intensive, *i.e.*, \$\$\$\$\$\$
- Requires Skilled People / Limited Talent Pool
- Large Corporate Build vs. Buy Decisions
 - Modify IP Department using Outside Consultants
 - Build new organization staffed with IP Personnel
 - Somewhere between the two?

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Integration Issues, aka Politics

- Relationship with BUs
 - Centralized or Decentralized
 - Budgets & Revenue
- Integrating Chain of Command
 - Legal or BUs or Corporate HQ runs Licensing?
 - Who reports to Whom?
- Liaison with BUs and HQ
- Outside Consultants & Lawyers

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Deal Hypothetical

- Non-Core Company A
 - Technology transfer of core manufacturing know-how to non-core Company A, *e.g.*, CNC positioning system able to drill, rivet, weld, trim and inspect large flat or curved surfaces;
 - Includes license of underlying patents and know-how; and
 - Royalty based on usage with grant backs

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Deal Hypothetical

- Joint Development Agreement
 - Idea and patent from Company B
 - BU teamed with Company B for development
 - Prototype funded by BU
- BU gets discounted Company B supply contract, license, etc.

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Deal Hypothetical

- Foreign Company A desires manufacturing technology and support to build BU sub-assembly, final BU product to be sold to it's Government
- Potential Deal: patent, know-how & technology transfer to Company A
- X year term, royalty and grant backs to BU

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Conclusion

- Licensing can augment business strategy and add tremendous value
- You need:
 - Guts, Bucks & Strategy
 - Consider Corporate Integration Issues
 - Managed Expectations



Small Company Issues in Monetizing IP

- **Three Main Issues**
 - **Resources**
 - **Resources**
 - **Resources**

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Topics Covered

- **Board/Management Level of Sophistication**
- **Clearance**
- **Strategic Portfolio Development**
- **Litigation**
- **Feedback for Product Development**

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Level of Sophistication

- In small business
 - Management is typically unsophisticated w/r/t IP
- Most important (and most difficult) function is to EDUCATE
 - Managing expectations with regard to:
 - What patents can/can't do
 - Portfolio strength
 - Litigation outcomes
 - Clearance

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Level of Sophistication, Cont'd

- Smart people want more info
- But . . .
 - Knowledge must be managed
 - Knowledge implies
 - DUTIES (e.g., diligence w/r/t IDS's)
 - LIABILITIES (e.g., trebled damages)
 - Knowledge can be EXPENSIVE to acquire, and EXPENSIVE to manage

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Level of Sophistication, Cont'd

- Corollary to education: Discipline
 - E-mails, white papers, etc.
 - Random searches by inventors or even in-house counsel
 - Less is more

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Clearance

- First Question: Should you do any kind of clearance at all?
 - Remember: Knowledge means
 - Increased duties
 - E.g., IDS's
 - Increased liability
 - E.g., Willful infringement
- Must educate company w/r/t different types of searches
 - And how to manage results

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Clearance, Cont'd

- For small business:
 - May not want to gain knowledge
 - Costly to
 - Gather information
 - Analyze information
 - Use information in well-defined way that furthers business
 - Question: What do we do with the information?
 - Business should be based on market need, not on patent search

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Clearance, Cont'd

- Don't go half way
 - Decide exactly how much information you need, and go all the way
 - Real freedom to operate opinion?
 - Clearance of certain features?
 - If you get knowledge, do you need an opinion letter?
 - Learn state of the art?

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Clearance, Cont'd

- Don't do it on the cheap!
- Best to use outside resources
 - Search
 - Analysis
 - Written Opinion
- In-house counsel can assist to bring down costs
 - But don't be so involved as to create implication of illegitimate analysis

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Strategic Portfolio Development

- Know your business model
- Each business model has inherent strategic issues
 - Pure licensing?
 - Make and sell product?
 - Develop technology?
 - Provide service?

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Strategic Development, Cont'd

- With limited resources, must limit portfolio development to further the business strategy
 - Can you justify the cost of a patent?

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Strategic Development, Cont'd

- Several Aspects
 - Strategic portfolio development, with an eye toward:
 - Protecting products
 - Blocking competitors
 - Asserting patents
 - Product-specific litigation
 - Licensing program

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Strategic Development, Cont'd

- What do you need your patent for?
 - To protect a product against knock-offs or competitors
 - To protect your customers after they buy your product
 - I.e., are your customers exposed if their competitors knock-off your product?
 - To gain legitimacy against bigger players
 - To make money through assertion
 - Defensive cross license/counter suit

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Strategic Development, Cont'd

- Example:
 - Pure licensing – focus on claims that maximize royalties
 - May want to forego breadth of coverage for “safer” claims that are more difficult to invalidate
 - Also quicker to issue (to extent timing is part of the strategy)
 - Technology development – may avoid expense of patenting if technology cannot be reused, or if not required to indemnify customer

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Strategic Development, Cont'd

- Know your competitors
 - It's good to patent your technology, but it can be better to patent the competition's technology

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Patenting Strategy, Cont'd

- Work in house, or use outside counsel?
 - Issues: Internal resources, expertise, depth of experience
- Pay per patent vs. hourly fees
 - Size of portfolio vs. strength of patents
 - Generally, you get what you pay for

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Other uses of portfolio

- Patent *Research* can inform Business Strategy for Every Business Model
 - “Prior Art” Search:
 - What problems have competitors addressed?
 - This is the best “nonclearance” use of a patent search
 - What roadblocks Exist?
 - See “clearance”

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Other uses, Cont'd

- Patent Research can inform Engineering Strategy
 - Patent research can tell what problems have been addressed
 - Can use knowledge of art to focus resources
 - More focused R&D
 - Knowledge is limited by age of technology when patent issues
 - Can tell you what *not to* invent more easily than what to invent
 - What features to avoid in your product
 - Patenting “holes?”

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Patent Assertion

- Litigation is NOT about winning!
 - It is about supporting your business model
- Must know when to get in, and when to get out
 - Fit litigation into business strategy – what are goals?
 - Shaking the trees to see what falls out vs. Shutting down the competition
 - Stage by stage cost-benefit analysis

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Patent Assertion, Cont'd

- What's it worth?
 - How much due diligence?
 - Internal research of competition?
 - How much money is on the table?
 - Potential countersuits? (Exposure for poking the bear)
 - What impact does certain exclusive license have on long-term business?

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Patent Assertion, Cont'd

- Do it on the cheap?
 - Can shake the trees to see what falls out
 - Large number of companies but ask for relatively small amount of money
 - Ask for less than defense cost
 - Swing for the fence

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Patent Assertion, Cont'd

- Financing law suit
 - Insurance
 - Contingency
 - Straight fees


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Final Word, Cont'd

- It's an iterative process
 - Business strategy, engineering strategy and patent strategy all form a seamless web to support business model
 - Remember – a patent is not a license to practice an invention
 - It allows the patentee to restrict others




*Building a Business Relevant IP Strategy:
Using Intellectual Property to Protect, Grow and Add Value to
your Business*

Ron Epstein

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The IP Challenge

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Intellectual Property – An Untapped Asset

- IP is the most underutilized asset in business
 - Unrecognized on most balance sheets
 - Typically, an “afterthought” in business
- IP is one of the single largest opportunities for companies to increase strategic business value
 - Create new business opportunities
 - Create barrier to entry for competitors
 - Influence and direct technology/market directions
- IP represents a significant, untapped opportunity for revenue generation
 - Patent Royalties in 2002 estimated at \$100 Billion
 - IBM alone generated \$1.6B in IP royalties in 2002
 - Qualcomm – 28% of revenues from patent licensing in FY 2002

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Intellectual Property – An Unrealized Threat

- IP represents a significant business risk
 - Over 2 Million effective patents today
 - Patents filed increased from 175K in 1992 to 334K in 2002
- The rush to monetize IP is on
 - Royalties increased from \$500M to \$100B in the 90's
 - Number of suits doubled from 1992 to 2002
 - Litigation cost has increased from \$1M to \$3M/patent
 - Ernst & Young projects patent licensing revenue to grow to \$500B by 2015
- Many businesses are starting to act
 - Boeing, IBM, Lucent, Intel, Microsoft, P&G, TI
 - Infrastructure companies are forming

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Four Common Scenarios

1. No defined IP Strategy
 - Do not have an IP Strategy
 - Do not link their IP Strategy to their business strategy
2. Have a strategy, but passive versus proactive
 - View IP as event driven rather than business process
 - Wait for submissions vs. engineering development of IP
3. Have an active strategy, but require additional skills, expertise, experience or processes to execute effectively
4. Strategy is not delivering desired results
 - Not achieving revenue targets
 - Balancing revenue licensing vs. potential liability

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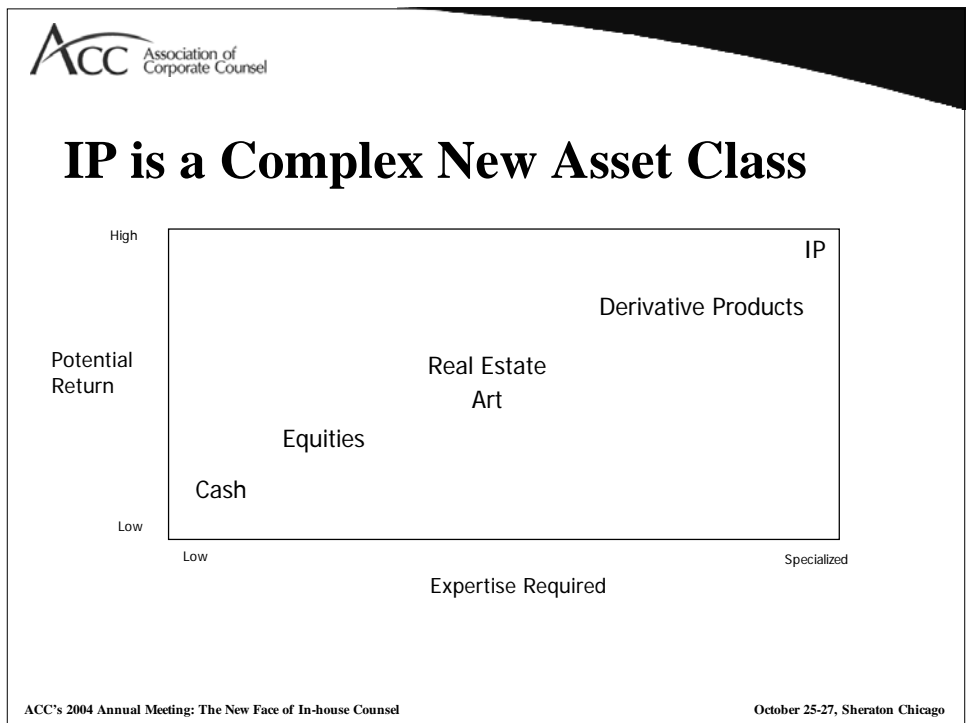
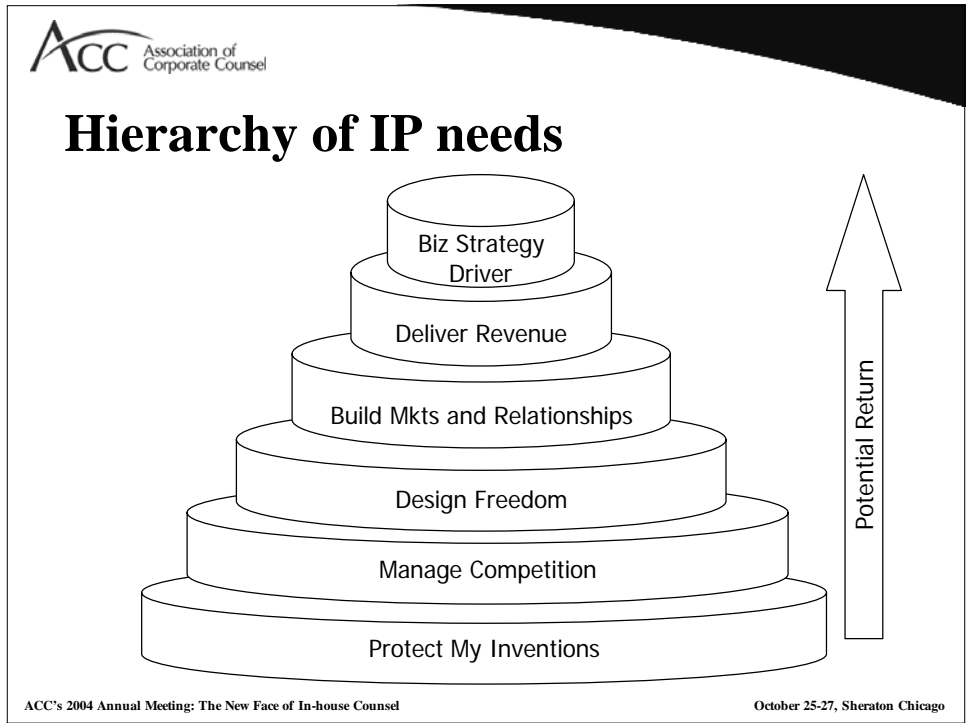


The Question of Value

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Current Solutions do not Meet Asset Holder Requirements

The diagram consists of three circles arranged in a triangle. The top circle is labeled 'Law Firms' and contains a bulleted list: 'Patent drafting', 'Patent Litigation', and 'Drafting Agmts'. The bottom-left circle is labeled 'Consulting Firms' and contains a bulleted list: 'Business Solutions', 'Process Mgmt', and 'Financial Analysis'. The bottom-right circle is labeled 'Infrastructure Firms' and contains a bulleted list: 'IP Strategy', 'Revenue focus', and 'Technology'.

Law Firms

- Patent drafting
- Patent Litigation
- Drafting Agmts

Consulting Firms

- Business Solutions
- Process Mgmt
- Financial Analysis

Infrastructure Firms

- IP Strategy
- Revenue focus
- Technology


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The Six Greatest Barriers to Valuing IP

1. Identifying the valuable IP
2. Tying legal, technological and financial analysis
3. Getting the right experts to the table
4. Portfolio view of strategy and risk
5. Recognizing and avoiding inherent business biases
 - "This is the way it's always been done"
 - Focus on "gives" rather than "gets"
6. Demonstrating "Nerves of Steel"
 - Reputation as a closer
 - Willingness to Litigate
 - Balanced with pragmatism

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A Potential Solution

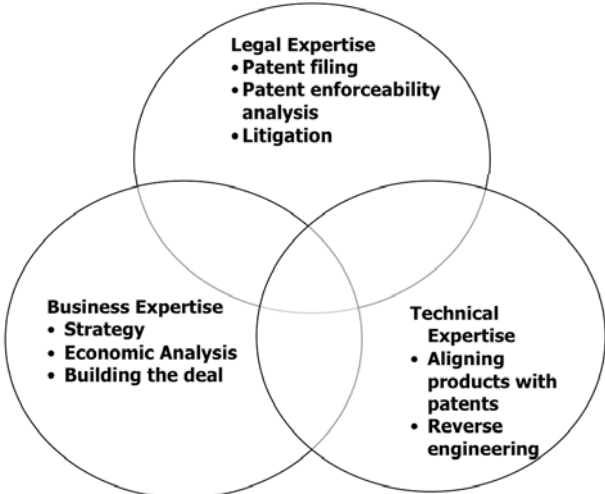
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IPotential Value Proposition



- Patent filing
- Patent enforceability analysis
- Litigation

- Strategy
- Economic Analysis
- Building the deal

- Aligning products with patents
- Reverse engineering

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