

Beauty is in the IP of the Beholder

Protecting & Monetizing Your Company's Intellectual Property

March 26, 2019

Laura Giles & Jon Talcott
Ballard Spahr LLP
Phoenix, Arizona



Agenda

- Motivation
- Understanding a Company's IP
- Setting up a program for IP
- Licensing and selling IP
- Enforcement and litigation
- Questions/Discussion

Motivation: The Value of IP

- IP is an asset, *property*
- Not just a defensive tool
- IP may be . . .
 - Sold
 - Licensed
 - Enforced to:
 - Collect damages
 - Get an injunction



Motivation: Sample Litigation Outcomes

- ***Apple v. Samsung* (2018)**
 - \$1B → \$539M → settled
- ***Black & Decker v. Positec* (2017)**
 - \$54M verdict, wiped out on JMOL
- ***Oracle v. SAP* (2014)**
 - \$1.3B → \$357M for copying software
- ***Gaye v. Williams/Thicke* (2018)**
 - \$5M for “Blurred Lines” copyright
- ***Tiffany & Co. v. Costco* (2019)**
 - \$21M damages



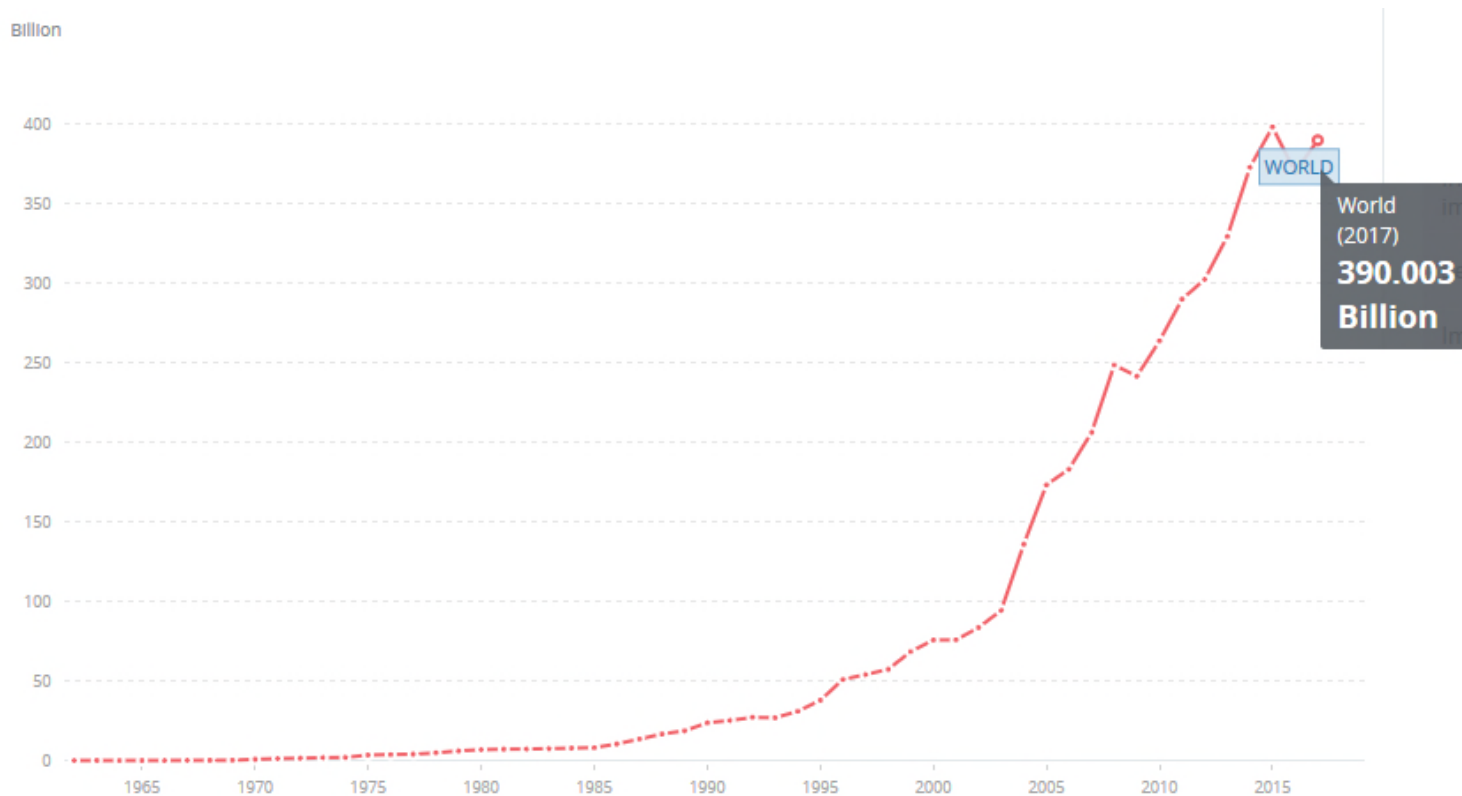
Motivation: Sample Licensing Programs

- **Lucrative licensing Deals**
 - Qualcomm – \$6.6B/year
 - IBM – \$10B/year
 - MIT – \$307.8M/year
 - University of California – \$121.4M
 - Harvard University – \$77M
 - ASU – 950+ licenses, \$700M IP capital, 120 startups



Motivation: IP Licensing Explosion

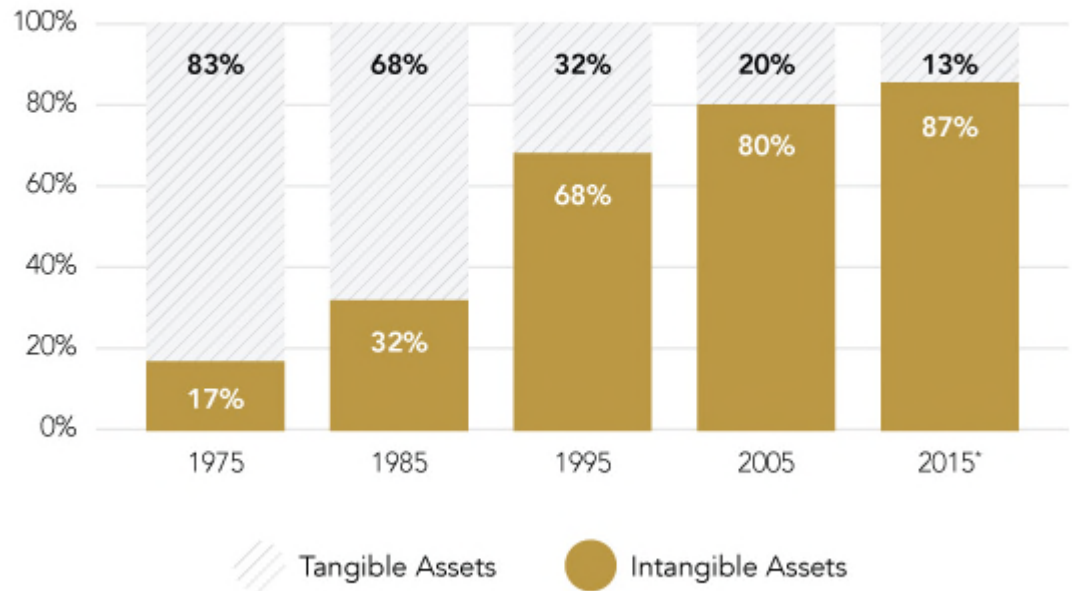
- Charges for use of IP remains on the rise [Source: World Bank]
- U.S. ~ 40% = \$156 Billion



Motivation: IP Increases Bottom Line

- Co.'s can increase their operating income by 5-10% from the sale/licensing of IP
- Few companies earn more than 0.5% of their revenue from licensing

COMPONENTS *of* S&P 500 MARKET VALUE



SOURCE: OCEAN TOMO, LLC

Understanding a Company's IP

TRADE SECRETS

- Protects secret information
- E.g., New invention, Coke formula

TRADEMARKS

- Protects brands
- E.g., Apple for cell phones

COPYRIGHTS

- Protects works of authorship
- E.g., books, movies, drawings

PATENTS

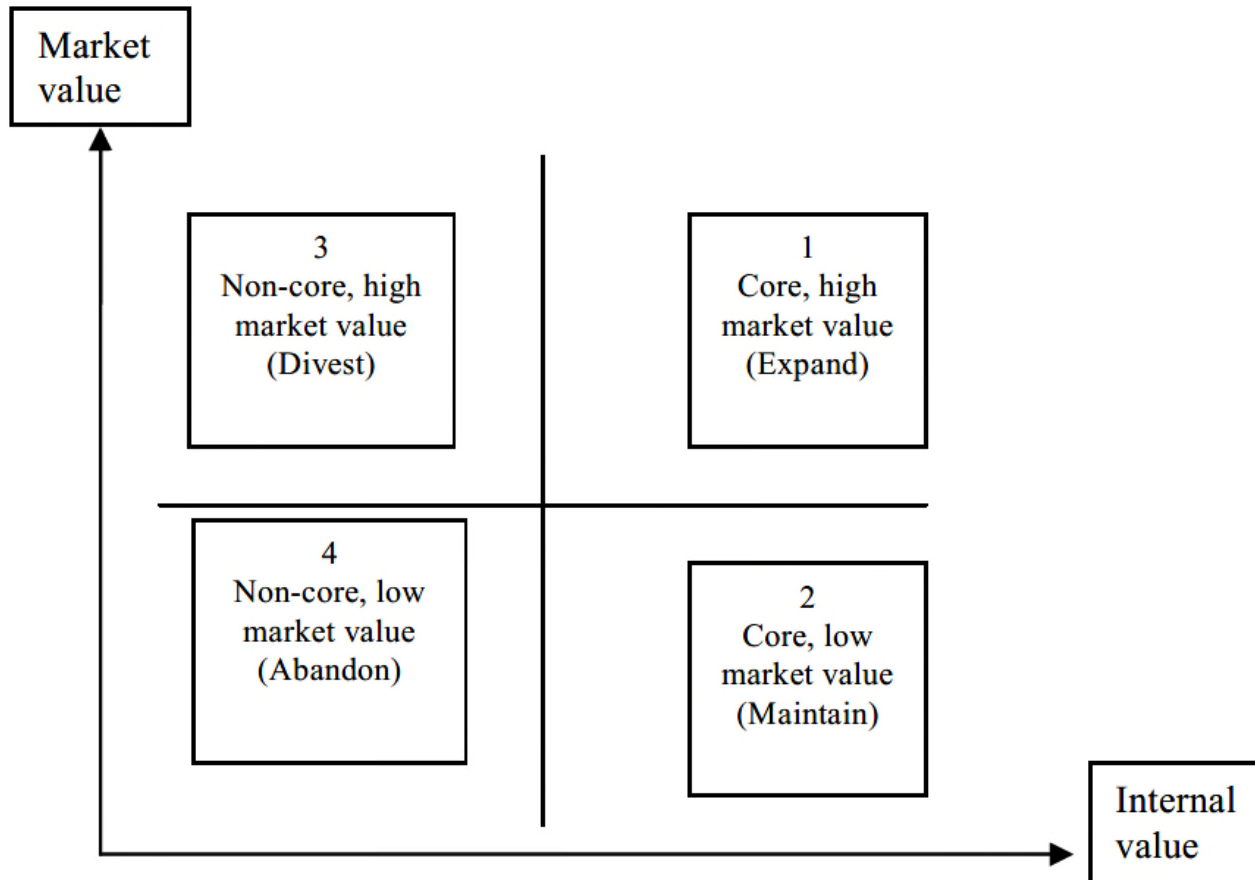
- Protects functional or ornamental features
- E.g., swipe feature or iPhone design

Understanding a Company's IP

		Protects	Infringement	Registration Process	Term	Comparative Costs
Patent	Utility Patent	Functional Aspects	Make, Use, Offer, Sale, Import	Yes	20 years upon filing	Expensive
	Design Patent	Ornamental Features	Make, Use, Offer, Sale, Import	Yes	15 years upon filing	Moderate
Trademarks		Brands	Used in commerce	Optional	Potentially indefinite, limited by use	Inexpensive
Copyrights		Works of Authorship	Copying, etc.	Optional	Life Plus 70 Years	Inexpensive
Trade Secrets		Information	Misappropriation	No	Potentially indefinite, limited by secrecy	Depends

Understanding a Company's IP

- Internal vs. External Value to the Company



Building an IP Portfolio

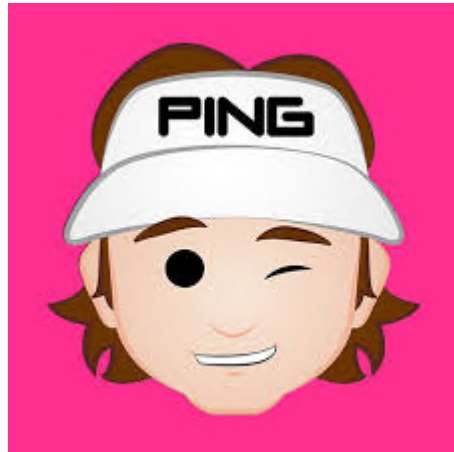
- Look at goals – barrier to competitor entry, grow market share, make money, marketing, other
- No one-size-fits-all approach
 - Retail vs. high tech
 - Online vs. brick & mortar
 - Products vs. services
 - Size of company; corporations vs. universities
- ID what's the core technology etc. to protect – now & later
- Where to protect (U.S. state/federal vs. abroad?)
- Costs & timing

Program to Clear, Protect, and Defend

- Set up processes & forms for developing IP
- Obtain employee buy-in
- Clearance system
- Tracking system
 - Patents, trademarks, domain names, copyrights, licenses
- Employment/HR/other business considerations
- Budget

Program to Clear, Protect, and Defend

Think about the brand...



IP Clearance: Avoid This . . .



ORDER NOW



New logos for McFate Brewing Company (formerly Fate Brewing Company — South) and McFate Tap + Barrel (formerly Fate Brewing Company — North)

McFate Brewing Company

Scottsdale's Fate Brewing Company To Change Name To McFate Brewing Company

SARA PALMER | JUNE 15, 2016 | 7:00AM

IP Clearance: Avoid This . . .

General Counsel
[REDACTED]
[REDACTED]
[REDACTED]

Re: [REDACTED]
Notice of Infringement of United States Patent No. [REDACTED]

Dear Sir or Madam:

We are intellectual property counsel to [REDACTED] ("[REDACTED]"). [REDACTED] is the owner of U.S. Patent No. [REDACTED] ("the [REDACTED] Patent") entitled "[REDACTED]." (Attached hereto)

By way of background, the [REDACTED] Patent relates to a system that provides agents and/or users with an online searchable real estate database where the agents and/or users can save their searches, their favorite properties, and their notes and receive update messages when new properties matching their criteria come on the market or the status of properties that they are monitoring changes. This invention is very valuable in the real estate industry because a vast portion of new real estate buyers begin their searches for a new home online. These users also rely on message updates to keep abreast of new listings or changes to the properties they are interested in.

It is our belief that the websites and services offered and promoted by [REDACTED] [REDACTED] namely the system found on the website [REDACTED] use, induce others, or contribute to the performance of one or more of the claims of the patent. Accordingly, by this letter, we are putting you on notice that we and [REDACTED] believe that [REDACTED] directly and indirectly infringes the [REDACTED] Patent.

A non-exclusive license under the [REDACTED] Patent is available on fair and reasonable terms. We invite you to schedule a meeting to open discussions regarding licensing the [REDACTED] Patent.



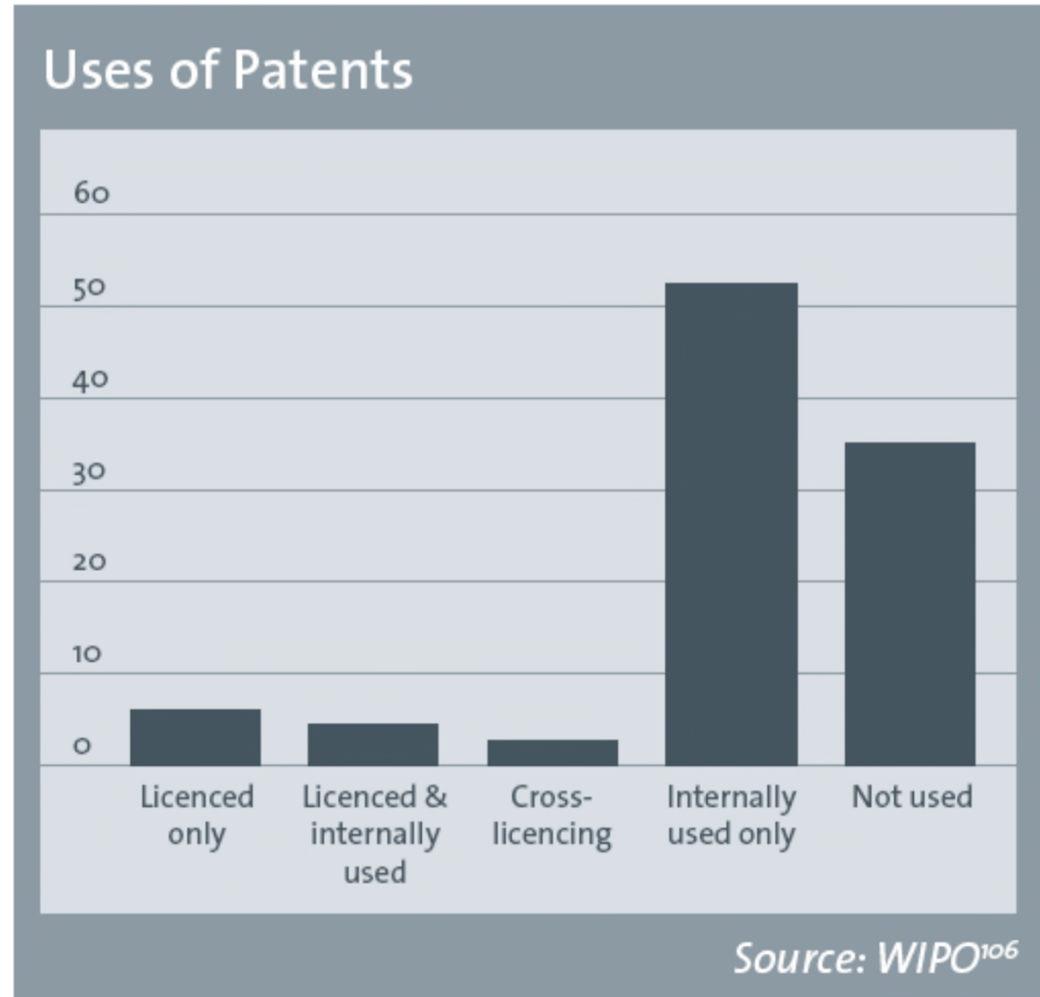
Keys to a Clearance Program

- Have a process in place
 - TM/CR submission forms
 - Invention disclosure submissions
 - Assign clearance team
- FTO/Clearance searches
 - IDs competitive landscape; third party use
 - Invest upfront vs. paying later to re-brand/license!
 - Opinions of counsel (written vs. oral)
- Patents – state of the art assessment (validity/patentability)



Licensing and Selling IP

- Not all IP is valuable
- Only ~5-10% of issued patents have significant commercial value
 - < 3% generate royalties
 - < 50% licensed IP generates income



Valuing IP: A Difficult Task

- Why value? Tax/accounting, preparing to sell/license
- Why not value? Litigation – could be used against you
- Use third party IP valuation company
- Less is more (writing-wise)

Cost-based valuation	Market-based valuation	Income-based valuation
<ul style="list-style-type: none">• Cost of replacement• Cost to create the asset historically vs. cost to replace the IP at current market rates.	<ul style="list-style-type: none">• Based on what similar IP assets sold for.• Comps are difficult/impossible to find in IP	<ul style="list-style-type: none">• Stream of income attributable to the IP• Based on historical earnings/royalties and expected future earnings.

Licensing IP

- Key terms/considerations
 - Scope of license grant, recognition of ownership
 - Exclusive vs. non-exclusive; geographic; define the IP
 - Royalty/fee calculation (amount, lump vs. running)
 - Base off industry standards/ROTs; varies but typically ~5%
 - Define as % of revenue vs. profits
 - Term & termination
 - Rights re control, inspection, standards
- Develop your company's own checklist/wish list
- Propose your own form/draft to set starting point

Selling IP: The Assignment Agreement

- First: Ensure Company Owns the IP!
 - Copyright author vs. work-for-hire (EE vs. Contractor)
 - Patents = inventors own until assigned
 - TM & TS = company-owned, but may need assignment
- Key terms/considerations:
 - Definition of IP being assigned is critical – define as specifically as possible
 - Consideration/purchase price (go back to valuation)
 - Transfer all right, title, and interest
 - Retention of license/right-to-use rights in owner
 - Obligation to assist with necessary recordings

Selling IP: The Spinoff


- Identify the universe of IP being sold
- Get organized!
- Form a new subsidiary
- Contribute the IP to the subsidiary
 - Contribution agreement
- Sell the subsidiary

Selling IP: Innovative Models

- Secondary, speculative markets :
 - IP banks buying patents and reselling at profit
 - IP securitization (sale of IP for a pricing based on future royalty income; e.g. David Bowie's portfolio)
- Dedicated commercialization platforms:
 - IP showcases, on-line listings
 - IP auctions (Ocean Tomo, eBay)
- Enforcement speculative market:
 - “IP trolls” (buys patents and seek royalties)
 - Private-equity funding research dedicated to generate and exploit IP (Intellectual Ventures)

Enforcement and Litigation

- Set up formal process to monitor & police your IP
- Identifying targets/infringers
- Use combination of organic + third party monitoring
 - E.g., Thomson-Reuters, CompuMark/Clarivate “watch dog” services (including for domain names)
- Have attorney/paralegal review

	CompuMark 30 Thomson Place Boston, MA 02210-1212	Phone (800) 692-8833 compumark.us@clarivate.com compumark.com
USPTO Pending Application Watch Notice		
JONATHAN TALCOTT BALLARD SPAHR LLP 1 E WASHINGTON ST STE 2300 PHOENIX, AZ 85004-2555 USA	Your Ref.:	
	Our Ref.:	1209113 / 392729877 / 241001 / 41690
	Date:	February 28, 2019
MARK WATCHED: [REDACTED]	SELECTED MARK: [REDACTED]	
CLASS(ES) WATCHED: 35	INTERNATIONAL CLASS(ES): 35	
[REDACTED]	SERIAL NUMBER: 88-296, 181	
	GOODS/SERVICES: (INT. CL. 35) Career placement consulting services; Employment agency services; Employment agency services, namely, filling the temporary and permanent staffing needs of businesses; Employment counseling and recruiting; Employment hiring, recruiting,	

Enforcement: The Art of the Demand

- Get a good template and customize
- Various approaches depending on aggression
 - “May infringe” or “appears to practice our patents” vs. absolutes
- Best to attach proposed license/settlement agreement
- Avoid DJ action
 - SJX – “all circumstances” test of *MedImmune v. Genentech*, 549 U.S. 118 (2007) (has been applied to all IP cases)
 - Factors: history of conflict b/t parties, TTAB/PTAB proceedings, demand letter threats; previous refusals
 - PJX – patentees have “safe harbor” for avoiding PJX, but may not apply to TM/CR demand letter

Litigation: A Last Resort?

- Risks vs. rewards
 - Funding sources
 - Choice of forum
 - End-game goals
- Patent cases
 - Form 18 abrogated; *Iqbal/Twombly* applies (must plead all elements of 1+ claim)
 - Venue under *TC Heartland*
- IP cases are expensive!
 - Nuisance value settlements range in mid-six to low seven-figure dollar range (~cost of defense)



Key Takeaways

- Best practices for value protection
 - Identify your company's existing & potential IP
 - Get processes in place
 - Obtain execs' & employees' buy-in (training helps)
 - Establish form documentation & templates
 - Leverage outside counsel, monitoring, valuation services
 - Be proactive
- Questions?

Thank You!



Laura Giles
gilesl@ballardspahr.com
602-798-5503



Jon Talcott
talcottj@ballardspahr.com
602-798-5485