



101 Maximizing Value From Your Portfolio

Nelson Adrian Blish

Patent Counsel

Eastman Kodak Company

David M. Braitsch

Director of Intellectual Property Asset Management

Eastman Kodak Company

T. Rao Coca, Ph.D.

*IP Law Counsel, IBM Almaden Research Center and
IP Functional Manager, IBM Asia Research Labs*

IBM Corporation

Joseph F. Ruh

Attorney

Eastman Kodak Company

Faculty Biographies

Nelson Adrian Blish

Nelson A. Blish is presently patent counsel for Eastman Kodak Company in Rochester, NY, with responsibility for the engineering physics lab. He has more than 20 years experience in intellectual property law including licensing, mergers and acquisitions, managing litigation, preparing and prosecuting patent applications in automotive, electronic, electrical, mechanical arts, infringement and validity studies, trademark and copyright practice, and management responsibilities.

Mr. Blish has specialized in corporate intellectual property law and has worked for a number of corporations including Philip Morris and Cooper Industries. While at law school Mr. Blish worked at NASA's Research Center at Langley, VA, and was licensed as a patent agent. At NASA he was responsible for patentability evaluations and preparation of patent applications for a 3,000 person Research and Development organization.

Mr. Blish is president of the Western New York Chapter of the US Naval Academy Alumni Association. In the past, he has been vice president of the Rochester Skating Club, president of ACCA's Rochester Chapter; on the Board of Directors of the ACCA Foundation, president of ACCA's Houston Chapter, president of the Gulf Coast Chapter of the U.S. Naval Academy Alumni Association, executive vice president of the Richmond Chapter of the Naval Reserve Association, and president of the Richmond Chapter of the US Naval Academy Alumni Association. His first novel, *Ishmael's Son*, was published by Glencannon Press in February 2003.

Nelson A. Blish graduated from the United States Naval Academy. After commissioning as an Ensign in the United States Navy, he obtained an MS from Michigan State University and attended Nuclear Power School and Submarine School. Capt. Blish remained in the Naval Reserves after leaving active duty and attended law school at Marshall Wythe, College of William & Mary.

David M. Braitsch

Director of Intellectual Property Asset Management

Eastman Kodak Company

David M. Braitsch is currently the director of intellectual property asset management at Eastman Kodak Company in Rochester, New York. During his career at Kodak he has contributed as a scientist and project manager in multiple technologies and has held a number of research and development and business management positions in the U.S., France, and England.

Prior to this position, he was an assistant professor of chemistry at the University of Rochester.

Mr. Braitsch received his Ph.D. in Inorganic Chemistry from the University of Florida and subsequently did Post-doctoral work with R. Bruce King in Organometallic Chemistry at the University of Georgia.

T. Rao Coca, Ph.D.

T. Rao Coca is intellectual property law counsel at IBM Almaden Research Center and intellectual property functional manager at IBM Asia Research Labs. IBM is the world's largest information technology company, ranked the top U.S. patentee for 10 consecutive years, and generated over \$10B royalties in the same period by licensing its intellectual property. Mr. Coca concentrates his practice on the full spectrum of intellectual property and technology matters. Starting from securing the best legal protection for the breakthrough ideas and expressions that the IBM labs are so famous for, he assists his client in licensing this IP to generate its massive royalty income, and in addressing unprecedented legal issues that arise as IBM pushes the e-business frontier in its product and service offerings.

Mr. Coca recently moved from being the Microelectronics Division intellectual property counsel in Fishkill, New York. Prior to this position, he was a senior engineer at General Dynamics.

With Asian India heritage, he is an active supporter of IBM's diversity programs, particularly for enhancing career opportunities for Asians. He has also served on a number of committees, including chairing the IPO's World Patent Committee.

Mr. Coca has earned an MS in Nuclear Physics, MA in Optical Physics, Ph.D. in Solid State Physics, and JD.

Joseph F. Ruh

Joseph F. Ruh is an attorney in the office of corporate commercial affairs for the Eastman Kodak Company in Rochester, New York. He manages Kodak's development and implementation of its patent and technology licensing initiatives, and provides legal counsel to the company in the area of intellectual property and information technology. Prior to assuming his current responsibilities, he served as division counsel to Kodak's entertainment imaging division in Los Angeles, and as Kodak's senior software and information technology counsel.

Before joining Kodak, Mr. Ruh was in-house counsel at Computer Consoles, Inc. (subsequently acquired by Nortel) where he provided legal advice related to the manufacture, sales, and support of computer hardware and software systems for the telecommunications industry. Prior to moving in-house, he practiced corporate and securities law at the Rochester law firm of Harris, Beach, where his practice focused on technology start-ups.

Mr. Ruh is a graduate of the University of Rochester and the SUNY Buffalo Law School, and served as an officer in the US Navy's Submarine Force.

Maximizing Value From Your IP Portfolio

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Panel Members

Nelson Adrian Blish
Patent Counsel
Eastman Kodak Company

David M. Braitsch
Director of Intellectual
Property Asset
Management
Eastman Kodak Company

T. Rao Coca, Ph.D
IP Law Counsel, IBM
Almaden Research
Center and IP Functional
Manager, IBM Asia
Research Labs
IBM Corporation

Joseph F. Ruh
IP Licensing Counsel
Eastman Kodak Company

Agenda

| | |
|---------------|--------------------------------|
| Nelson Blish | <i>Introduction</i> |
| Dave Braitsch | <i>Patent Management</i> |
| T. Rao Coca | <i>Licensing For Dollars</i> |
| Joe Ruh | <i>Donations / Consultants</i> |
| Panel | Q & A |

Introduction

- Survey of techniques for extracting value from IP portfolio
- Intended audience – corporate generalists, not IP specialists
- Format – presentations plus Q&A

Patent Portfolio Management – A Foundation for Increased Earnings

David M. Braitsch
Director of Intellectual Property Asset Management
Eastman Kodak Company

Outline

- A few patent facts
- Key principles of portfolio management
- Challenges facing portfolio managers

Patent Portfolios Are Mixed Blessing

- Benefits
 - Government granted monopoly (right to exclude others)
 - Puts information into public domain (prevents others from obtaining similar patent)
- Costs
 - Expensive to obtain
 - Expensive to maintain
 - Expensive to exploit

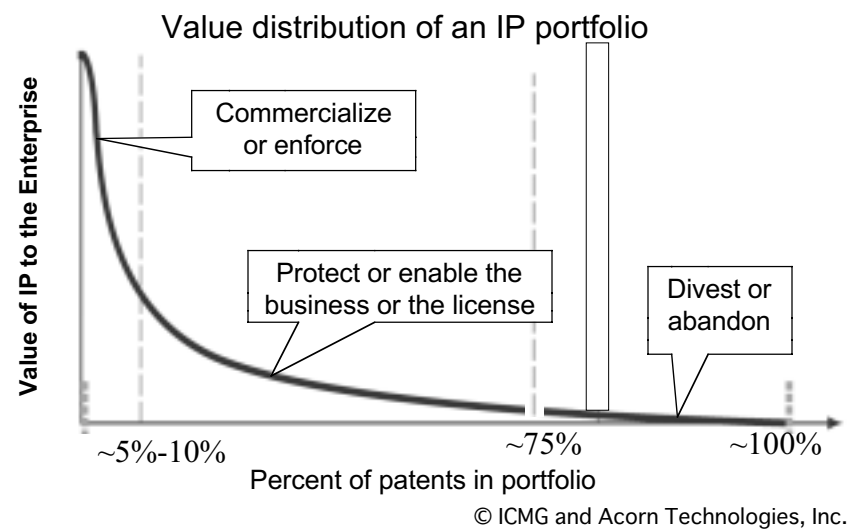
Patent Portfolios are Expensive

| | |
|----------------|---|
| \$20K - \$40K | Lifetime cost to prosecute and maintain US patent |
| \$80K - \$100K | Lifetime cost to prosecute and maintain US patent and key European / Asian counterparts |
| \$2M - \$10M | Lifetime cost of filing 100 new patent applications per year |
| \$2M - \$3M | Typical budget for patent litigation |

Patent Value Is Context Dependent

- Patent value is based on use or intended use
 - Core (supports current / future product streams)
 - Defensive (cross licensing leverage)
 - Basis for Alliance / Spin-out
 - Infringement leverage / “Stick” License
 - “Carrot” License
 - Sell
 - Donate
 - Abandon

Value Concentrated in Few Patents



Outline

- A few patent facts
- Key principles of portfolio management
- Challenges facing portfolio managers

Patent Portfolio Management

- Goal - Maximize the total value of the portfolio
- Methodology – Enable the right decision at the right time
 - Patent Acquisition Phase
 - Should we file? Where? Is disclosure sufficient?
 - Value Extraction Phase
 - How should we extract value? Core business? Carrot / stick license? Donation?
 - Renewal or Termination Phase
 - What to keep? What to abandon?

Patent Portfolio Management Principles

- Know what patents (and patent applications) you have
 - Organize the patents for ease of access
 - Know the key facts about those patents (e.g. claim coverage; priority dates; foreign counterparts)
 - Organize patents into logical groupings by technology or application (“clusters”)

Patent Portfolio Management Principles

- Know what factors affect the use (and therefore value) of your patents and patent applications
 - Interaction with stakeholders
 - Competitive landscape
 - Business and technology strategies
- Create a formal patent strategy
- Manage the groupings with experienced people familiar with these elements

Distribute Portfolio Info to Stakeholders

- Patents require preservation of institutional knowledge – 20 year life
- Knowledge must be shared with current and future stakeholders
- Stakeholders must contribute to knowledge base
- Sharing tools must be easy, accessible, and accurate

Encourage Stakeholders to Interact

- Create / exploit forums for discussion
 - Cluster meetings
 - patent cluster coordinators, business technology directors, business marketing directors, patent legal staff, licensing directors, business intelligence specialists
 - Technology briefings
 - Product planning sessions
 - Patent approval / renewal meetings
- Use Feedback to Refine Process

Outline

- A few patent facts
- Key principles of portfolio management
- Challenges facing portfolio managers

Challenges

- Patent assessment (patent mining) projects are time consuming, resource intensive, and generate subjective data
 - Outside experts can be expensive, e.g
\$100 - \$400 per patent
 - Processing the data is tedious
 - Updating the data as new IP is generated is a continuing burden
 - Providing the data to IP stakeholders is difficult

Challenges, cont'd

- Patent value changes unpredictably, and sometimes dramatically
 - New business plans emerge
 - Competitive landscape changes
 - New technologies emerge
 - Some technologies fail
 - New patents issue
- Value extraction strategy must adapt

Challenges, cont'd

- Patent stakeholders may not share common experience or objectives
 - Business units have different agendas
 - Decision making is distributed
- New lines of communication may be needed

| | |
|------------------|--------------------------|
| Product Planners | Technical / Business |
| R&D | Intelligence Specialists |
| Patent Attorneys | Patent Analysts |
| Licensing Staff | |

Conclusion

- Patent portfolios need active management to return maximum value
- Good portfolio management requires both data collection and teamwork
- Portfolio management is not easy, but can pay handsome rewards

Licensing for Dollars

T. Rao Coca
Counsel, Intellectual Property Law
IBM Almaden Research Center
IP Functional Manager for IBM Research
Labs in Beijing, Delhi, Tokyo

Outline

- Rationale for Enforcement of Patents
- Carrot / Pull Licensing
- Stick / Push Licensing

IP Is Perishable

- IP, particularly technology and know-how, is perishable
- Must be put to timely use to extract maximum value

Ways of Extracting Value from IP

- Practice the monopoly
 - Exclusive use by owner - gain competitive advantage
 - pharmaceuticals, biotechs, startups, niche players
- Selective Licensing
 - Control market share. Derive income stream
 - Intel, Motorola, Shell Oil, Eastman Kodak

Ways of Extracting Value from IP

- Licensing run as a business
 - License to anyone. Maximize royalty income
 - Lucent, Texas Instruments, IBM
- Assign/sell
 - Derive one time quick ROI income
- Both monopolistic use and licensing require enforcement of IP

IP Enforcement is Serious Business

- Time consuming
- Expensive - requires infrastructure
- Requires patience and persistence
- Requires inscrutable coordination
- Requires courage
- Enforcement action must be swift and effective with clearly defined objectives and goals

Object of Enforcement

- "Prevention is Better than Cure"
- Prevent infringers from causing incalculable and irreparable harm

3 Phases of Enforcement

1. Detection

- Monitor competitor's products/services
- Use investigators, informants, intelligence agent

2. Analysis

- Analyze suspected product to determine infringement
- Dissect the product, if necessary

3. Action

- Arrive at legal opinion on infringement
- Make legal, business judgment on type of action fitting infringement

Arsenal of Weapons to Curb Infringement & Derive Income

• Weapons

- Amicable persuasion to legitimize (carrot or pull licensing)
- Government instrumentalities (e.g., U.S. Customs, FTC)
- Litigation (stick or push licensing)
- Education

• Characteristics

- Each is a fundamentally different approach. Requires different team set, skills, tactics
- Both carrot and stick approaches are offensive, not defensive

Outline

- Rationale for Enforcement of Patents
- Carrot / Pull Licensing
- Stick / Push Licensing

Carrot/Pull Licensing

- A genteel IP management technique to achieve the desired result - royalty income
 - Peaceful or Olive Branch approach
- Technology and know-how transfer is primary incentive
 - Patent license is a necessary, secondary and integrated component
 - Proof of patent infringement may be required

Carrot/Pull Licensing

- Negotiation tends to be friendly (or less antagonistic) leading to partnership, alliance or other relationship benefiting both parties
 - Significant development recoveries to Licensor
 - Shorter product lifecycles to Licensee
 - Access to IP and skills not available to Licensee

Carrot/Pull Licensing – Skill Sets

- Requires a balanced, trained and seasoned Licensor team
 - Persuasive, enthusiastic negotiator
 - Knowledgeable technologist
 - Talented IP attorney
- Requires receptive and reasonable Licensee team, willing to acknowledge use/need of Licensor IP
 - Special tech transfer facilitator who has responsibility to implement and facilitate change
 - Manufacturing, sales and marketing teams to capitalize on licensed IP

Carrot/Pull Licensing - Advantages

- Leads to cost/risk sharing with positive results
 - Deal could be structured as on-going infusion of new and improved technology and know-how
- Legitimizes Licensee's product set, enhances quality and profitability
- Provides competitive advantage to Licensee
- Provides Licensor access to Licensee's blocking patents and ensures freedom to operate
- Outside vendors and manufacturers could play a role in support of licensed IP

Carrot/Pull Licensing - Disadvantages

- Licensor would be obligated to pursue and collect royalty from Licensee's competitors
- Licensee may expect this, or else mandate it as condition of license
- Litigation risk precipitated by Licensee

Outline

- Rationale for Enforcement of Patents
- Carrot / Pull Licensing
- Stick / Push Licensing

Stick/Push Licensing

- An aggressive and offensive IP management technique to derive income from infringer and stop the infringement, if necessary
- Must have defensible and sufficient IP portfolio for asserting
 - Scrub your IP
 - Single patent in a single market insufficient

Stick/Push Licensing

- Must have strong and vivid proof of infringement, able to withstand in court
 - Infrastructure need
- Infringer tends to be hostile
 - Perceives little incentive to cooperate
 - Frustrates Licensor as long as possible
 - Royalty payment is viewed as taxation

Stick/Push Licensing

- Must have rock solid and tenacious team of hardened negotiator, technologist and aggressive IP attorney
 - Assertive style is needed
- Must be willing to play hardball and wield the threat of suit
 - Threatening to sue is viewed as a mandatory sign of resolve

Stick/Push Licensing

- Detracts from or disrupts peaceful licensing program
- Time consuming, requires patience and persistence, if unwilling to sue

Stick/Push Licensing

- Litigation should be an definite option, albeit a last resort
- Litigation Disadvantages:
 - Cost intensive. Average cost of patent suit is \$2M
 - Outcome uncertain (50:50)
 - Nerve wracking--not recommended for faint-hearted CEO's
 - Licensor company stock value may plummet during litigation

Stick/Push Licensing

- Litigation Advantages:
 - Conveys the message that Licensor is serious
 - Threat of injunction is always a wake-up call to infringer
 - Payoff could be substantial, possible treble damages
 - Strategic suing makes sense in lucrative new technology markets if it slows competitors

Conclusion

- IP is undervalued
- A persistent, professional, customized and reasonable licensing program can yield surprising results

Patent Donations

Using Third Parties for IP Management

Joseph F. Ruh
IP Licensing Counsel
Eastman Kodak Company

Outline

- Patent Donations
- Using Third Parties for IP Management

Why Donate Patents?

- Need to grow shareholder value
 - Top and bottom line growth
 - Increased return on investment for R&D
- Many technologies and patents are never commercialized
 - Estimates are that companies use between 10% to 30% of their patented technologies in their own products

What is IP Donation?

- Gift of patents, plus documented know-how / trade secrets
- Willing Donor
 - Donor retains no rights
- Willing donee - 501(c)(3) Non-Profit
 - Donee accepts full ownership
 - Donee uses technology consistent with non-profit status
- Valuation by impartial third party

Donation Is Practiced by Others

- Allied Signal, Dow, Ford, DuPont, Eastman Chemical, P&G, Kodak and others have used donations to realize value and create/expand partnerships with universities and institutes
- For some companies, the IP donations generate higher annual returns than all licensing revenues

Benefits of Patent Donation

- Generates shareholder value
 - Donation value is deductible from earnings for tax purposes
 - Total value of all donations (cash + other assets) cannot exceed 10% of US earnings for that year
- Improves IP asset management skills
 - Requires organized management of portfolio
 - Provides outlet for non-strategic technologies that are not ready to be licensed or sold
 - Reduces cost of managing patent portfolio

Benefits of Patent Donation

- Improved recognition and satisfaction for inventors
- More effective relationships with universities
- Important public exposure for the company

Patent Donation Valuation

- Income approach (Discounted Cash Flow Method)
 - Present value of future cash flows attributable to technology
 - Discounted for risks of technical feasibility and market success
 - Based on data provided by third party technical and market experts
- Valuation amounts are decreasing in wake of IRS audits of early donations

Pro-forma Donation Budget - \$15M

| • ACTIVITY | Cost (K) |
|--|---------------------|
| • Find / Select Technology | \$ |
| • Technical / Market Experts | \$ |
| <hr/> | |
| • Valuation for IRS | \$100 |
| • Grant to Donee (for patent fees and seed funding) | \$250 |
| • Consultant Fees | <u>\$100</u> |
| • TOTAL | <u>\$510</u> |
| • After Tax Benefit (30% of \$15M) | \$4.5M |

Characteristics of Donation Candidates

- Defined and clearly owned technology (we know what it is we have) - best if patented
- With significant commercial value
- Outside of core business technologies
- Established within company's awareness for at least a year (so business units have had chance to use it, and have passed on that chance)

Characteristics of Donation Candidates

- At an early stage of development (so that donee can do additional development)
- Relatively young patents (so patents will survive to commercialization)
- Expensive or difficult to license or sell
- Can be separated from the company completely (no grant back needed from donee)

Key Learnings

- Most technologies are not donation candidates
- Must confirm no internal plans for technology prior to donation
- Labor intensive process
- Commitment from R&D a must
- Industry expert(s) are critical part of the process
- PR event adds value & commitment
- Need a follow-on relationship with donee

Outline

- Patent Donations
- Using Third Parties for IP Management

Roles of Consultants

- As Extra Pair of Hands
 - tasks that company knows how to do, but does not have the staff to accomplish
- As Expert
 - knowledge or skills that the company does not have in-house
- As Collaborator
 - a partner with the company, contributing process knowledge, but leaving the implementation to the company

Consultants in IP Management

- Portfolio management
 - Patent mining process
 - Industry / technology expertise
- Licensing
 - Teardown
 - Negotiation
 - Litigation
 - Technology assessment & marketing
 - Royalty audits

Consultants in IP Management

- Donation
 - Process expertise
 - Industry / technology / marketplace expertise
 - Valuation (outside firm required)
 - Donee selection
 - Commercialization / donee followup

Lessons Learned

- Some IP functions should not be outsourced (e.g. prosecution / abandonment / litigation decisions)
- Interview different vendors – each has a different approach
- Be clear what role you expect of vendor
- Seek recommendations / referrals
- Creative fee arrangements are available
- Stay engaged – schedule regular review sessions

Additional Reference Material

Associations

- Licensing Executives Society (<http://www.les.org>)
- American Intellectual Property Law Association (<http://www.aipla.org>)

Books

- *Rembrandts in the Attic – Unlocking the Hidden Value of Patents*, by Rivette and Kline
- *Edison in the Boardroom – How Leading Companies Realize Value from Their Intellectual Assets*, by Davis and Harrison

News about Donations

- <http://www.donology.com/resources/news.asp>