Intellectual Property
Due Diligence, IP Valuation & IP Licensing Negotiations

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Patent Trends and Statistics

• In the 26 years from 1985-2010, the U.S. Patent Office has issued more than 3.5 million patents, more than double the number of patents granted in the preceding 22 years (1963-1984).

— Number of U.S. patent applications has grown about 5% per year (from 2000 to 2010).
IP Valuation

• Formulas to determine royalty rates
  — sales exposure x royalty rate
  — I x V x sales exposure x royalty rate for each IP
  — I x V x sales exposure x royalty rate x IP’s life x other factors for each IP

• Family patents – how to value them?
  — Equal value? Reduced value? Family discount?

• Foreign counterparts – how to value them?
  — Independent value? Reduced value? Discount?
Strategies for Successful Patent License Negotiations

1. Each negotiation is unique
   a. different issues
   b. different bargaining strengths
   c. different personalities
Strategies for Successful Patent License Negotiations

2. Set strategic ground rules early.
   a) maximum number of IP to be discussed
      (stronger party wants more patents)
      i) Example: company made rebuttals but opponent
          came back with many more patents.
   a) negotiation format (presentation, rebuttal,
      surrebuttal, IV factors, terms/conditions,
      business/dollars)
      i) Example: company could not give sur-rebuttals
   b) royalty formula to be used?
Strategies for Successful Patent License Negotiations

3. Reduce number of relevant IP of the opponent

   a) Even if opponent initially refuses to agree to limit the number of IP to discuss, don’t give up.
      i) Example: company wanted 30 patents, but opponent said 60.

   b) Works when other party has more patents and stronger patents than you. Also works when other party does not know all of your diverse products (forces other party to commit to certain patents before they learn about your products).

   c) Requires you to do early preparation, identification of opponent’s key product lines with highest revenues, identification of your strongest IP.
Strategies for Successful Patent License Negotiations

4. Use Psychology
   a. Why good poker players win?
      i) eyes, hands, sitting position, etc.
   b. Tell signs
      i) Example: anger, talkative evasiveness
      ii) Example: silent leader makes arguments
      iii) Keep notes of opponent’s weaknesses
   c. Some negotiators are better than other negotiators, even for the same facts
Strategies for Successful Patent License Negotiations

4. Obtain Intelligence to Shape Strategies

Like sport videos, intelligence from other companies' negotiations with the opponent can help shape your strategies. Examples:

1) Once the opponent agrees to a dollar amount, the opponent folds on most contractual issues.

2) The opponent’s management fears litigation and considers litigation a failure of the licensing team.

3) The opponent is willing to reduce the royalty rate for the second five years to account for the expiration of its older patents.

4) The opponent’s confidence in its patents may be shaken by concerted arguments by other licensees.

5) The opponent is afraid of strong patents and settles with strong patentees easily.
Strategies for Successful Patent License Negotiations

5. Use Psychology
   a. Find their pressure points
      i) Ex: opponent’s fears
      ii) Ex: opponent’s sensitive products
   b. Learn when they are bluffing
      i) Ex: their bonuses are tied to concluding a license
      ii) Ex: company does everything to avoid litigation
Strategies for Successful IP License Negotiations

6. Setting an objective basis for the license
   a) force the opponent to abandon its bullying approach and focus on the facts
   b) If you are the patent licensor, establish objective basis
   c) show no interest in hearing the opponent’s premature royalty demand because parties did not finish presenting patents or rebuttals.
   d) Can make both parties realize that the opponent’s IP is weaker than initially expected and your IP is stronger than expected.
Strategies for Successful Patent License Negotiations

7. Set a tough "no fear" tone; set the rules and control the negotiation
   a. Demonstrate you are not affected by opponent’s bullying attempts.
   b. If opponent sets the rules and dictates the next steps, opponent gains control and psychological advantage.
Strategies for Successful Patent License Negotiations

8. Counter litigation threats with a "no fear" tone and bigger litigation threats.
   a. Example: opponent who made too many references to litigation.
Strategies for Successful Patent License Negotiations

10. Attack value of opponent's IP (patents)
   a) Prior art searches to invalidate patents
   b) Noninfringement and design arounds to reduce risks
   c) Standard essential patents might not be essential
   d) Consider life of patents as a discount factor
   e) Research RAND royalty rates typical for those technologies before the negotiation in case the opponent licensor gets greedy
   f) Find flaws in prosecution history (broken chain of title, etc)
   g) Patent exhaustion, implied license, laches, estoppel
   h) Inequitable conduct
Strategies for Successful Patent License Negotiations

11. Increase value of your IP

   a. If your patents are not standard-essential, they may be commercially necessary to compete

   b. Research sales volume of opponents’ products and target IP at products having the highest sales

   c. Research opponent’s manufacturing facilities and find your IP that target those countries.

   d. Research geography of opponent’s sales and find your IP that target those countries.

   e. Consider buying IP from a third party (example: client bought patent for $500,000 and won $13MM from competitor).
Strategies for Successful Patent License Negotiations

   
   a. **Opponent’s Advantage.** Example: existing license will soon expire.
   
   b. **Our Advantage.** Example: end of opponent’s fiscal year.
Strategies for Successful Patent License Negotiations

12. Be first to write the draft license and get broad rights
   a. harder to make changes than to include them in the initial draft
   b. almost a golden rule
Strategies for Improving IP Valuation

1. Plan ahead! Detailed study of your own IP to find the best IP two years before the start of licensing negotiations.

2. File IP applications STRATEGICALLY.
   a) file in countries where your biggest competitors’ sales and manufacturing facilities are.
   b) no need to file foreigns for every patent or IP
   c) file MANY foreigns and MANY continuations for your best patents and best IP
Strategies for Improving IP Valuation

3. Improve your IP portfolio. Acquire IP to strengthen your IP portfolio. Can sell off unused IP to gain capital to buy better IP.

4. One strong IP that impacts huge sales v. many IP that affect small sales.

   • One strong IP’s advantages: huge risk to opponent, cheaper litigation
   • One strong IP’s disadvantages: “all eggs in one basket”, easier for opponent to attack one patent than many patents, one argument (prior art, claim construction, noninfringement) may neutralize it
   • Many IP’s advantages: broad coverage across various product lines, harder for opponent to neutralize
   • Many IP’s disadvantages: expensive to litigate
Strategies for Improving IP Valuation

5. Draft patent claims strategically.
   - Consider competitors’ products
   - Consider systems products to increase sales exposure
   - Vary language in claims so one argument does not kill all claims.

6. Consider design-arounds to neutralize risks even during licensing negotiations

7. Start this process EARLY!
IP Due Diligence of Your Company’s IP

• Verify Ownership: Who Owns What?
  — IP creator’s obligations of assignment vary over time because they have worked for different companies. 99% of all IP assignments are compelled by Employment Contracts.
    • Risk if IP creator has a complicated employment history.
    • Risk if IP creator does private work or consulting on the side

— Due Diligence of Ownership of IP Rights
  • Chain of Title: Assignments, Recordations, Ongoing Obligation to Assign, Recordations of Security Interest under UCC, Past Acts of Infringement, Work for Hire
IP Due Diligence of Your Company’s IP

• Analyze Substance and Scope:

• What Does Your IP Cover?
  — Patents, Trademarks, Copyrights should cover the products you sell
  — *For patents, key is not what is the invention; the key is what is actually claimed.*
  — IP that are difficult to defend may be less valuable
    • Pending reexaminations?
    • Previous restrictively narrow claim construction of patents or trade secrets during litigation or prosecution history estoppel?
IP Due Diligence of Your Company’s IP

• IP with a licensing history
  — Subsequent IP owners (licensors) may still be bound by terms and FRAND royalty rates given to existing licensees
  — Extent of previous participation in standards setting organizations (SSO), disclosures, and SSO’s policies may require licensing of essential patents at FRAND royalty rates
  — IP previously identified in negotiation documents to be licensed at certain royalty rates may affect future royalty rates for licensing that IP
IP Due Diligence of Freedom to Operate

• Assess the Risks to the Company’s Freedom to Operate.
  — Risk of injunction against manufacturing and/or sales.
  — Litigiousness of your competitors
  — Source of Risk: Patent or trade secret litigation can produce an injunction
    • Patent Litigation
      • Patents that read on your current products
    • Trade Secret Litigation
      • Trade secrets are amorphous
      • Legal procedures allow shifting/hidden definitions for some time duration
      • Head-start injunction
IP Due Diligence of Freedom to Operate

• How is Risk Analyzed?
  — Search for Patents, Trademarks & Copyrights.
  — Search for Litigation
  — Risks based on Technology
    • Licenses needed
    • Blocks to commercialization
  — Risks based on People
    • Analyze past technology
    • Analyze past employment
IP Due Diligence Checklist

Depending on the nature of the technology, required due diligence may include:

• SUFFICIENCY OF COMPANY’S IP RIGHTS
  — Identify IP rights such as patents, trade secrets, trademarks, copyrights.
  — Analysis of patents and ongoing patent prosecution status to determine whether they cover your important technologies and products.
  — Verification of ownership and assignee status of IP rights.
  — Review of file histories of patents to determine whether important limitations on the scope of the patents were introduced during the prosecution of the patents.
  — Supplemental searches to identify key third party prior art (Thomson-Reuters Innovation, WIPO, USPTO). Risk of having the knowledge?
IP Due Diligence Checklist

Depending on the nature of the technology, required due diligence may include:

• FREEDOM TO OPERATE

  — Identification and review of established competitors and emerging competitors
  
  — Analysis of IP rights (patents, copyrights, trademarks) of competitors to determine whether their IP rights impact your “freedom to operate”
  
  — Simple concept but difficult and complex to implement
  
  — Certainty cannot be achieved, but the analysis makes you better informed
IP Due Diligence Checklist

Depending on the nature of the technology, required due diligence may include:

• SCOPE AND SUFFICIENCY OF AGREEMENTS
  — Identification of licenses and material agreements that could impact your ability to continue to sell a product after the acquisition.
  — Determination of third party licensing or distribution rights.
Recognized as a SuperLawyer in intellectual property litigation by SuperLawyers in 2010, David Wang is a partner in Winston’s Silicon Valley office who focuses his practice on patent infringement litigation and adversarial patent licensing negotiations. Mr. Wang handles high-stakes patent infringement matters before various courts, the Federal Circuit, and the International Trade Commission (“ITC”) in Section 337 actions. One jury trial victory in a complex patent and trade secret action was awarded the “Defense Verdict of the Year” by the San Francisco Daily Journal and a “Top Ten Defense Verdict for 2003” by The National Law Journal. Mr. Wang is described as a “top-notch lawyer” and a “brilliant all-round IP litigator who also knows the ins and outs of licensing” who “understands the psychology and personality of his counterpart” (IAM Patent 1000). In 2014 and 2015, he was named an “IP Star” by Managing Intellectual Property.

In addition, he is a chief negotiator of numerous significant patent licenses for many large technology companies.