

INTELLECTUAL PROPERTY

Protecting, Valuing, and Optimizing Assets



- The development, management, and protection of intellectual property have become increasingly crucial to business success. Companies are acting aggressively to protect intellectual property rights at a time when these rights have been subject to greater scrutiny and higher standards of proof in litigation. From high-stakes legal challenges in patent or other IP disputes to business decisions involving intellectual property strategies, quantitative economic analysis now plays an essential role.

Analysis Group's Intellectual Property practice offers expertise across the full spectrum of IP. Our professionals have worked with law firms and their clients to analyze both liability and damages issues in IP litigation, often providing expert testimony. We also have helped corporate clients manage their intangible assets to achieve competitive advantage and growth. We draw on our firm's capabilities in areas such as Antitrust, Valuation, Business Strategy, and Tax and Transfer Pricing to bring focused expertise to our IP engagements.

● **INTELLECTUAL PROPERTY LITIGATION** For many companies, IP litigation is the costliest litigation they face, involving potentially huge settlements and awards. Clients who have sought our assistance in these matters have come to expect rigorous economic and financial analyses, supported by our knowledge of specific industry structures, practices, and dynamics. We have advised attorneys and corporate clients in all phases of litigation, including development and review of pretrial discovery, creation of economic and financial models to analyze damages, and expert testimony in deposition or at trial.

#### PATENT INFRINGEMENT

With so much at risk, resolving patent infringement disputes requires the highest-quality analyses. Accurately assessing the difference in economic or financial returns between the “but-for” world—the world that would have existed but for the alleged infringement—and the world as it does or did exist in the face of infringement, is crucial. Our experts and consultants have provided analysis and testimony regarding such issues as:

- damages quantification including lost profits, reasonable royalties, and price erosion
- cost and feasibility of design-arounds
- substitution between patented products and allegedly infringing products
- accelerated market entry
- industry licensing practices
- patents covering industry standards
- relative importance of the patented technology.

We frequently apply statistical expertise to quantify the variables involved in determining damages. For example, we have used statistical sampling techniques to estimate the size of the customer base using the products or the importance of product features alleged to be infringing. We have also analyzed how a firm’s business strategy affects financial projections for the but-for world when determining lost profits.

#### COPYRIGHT/TRADEMARK INFRINGEMENT

Rapid changes in the communications industries have a profound impact on issues such as content ownership and use. In cases involving allegations of unauthorized use or infringement of copyrights or trademarks, our work has included:

- quantifying profits to be disgorged, assuming liability
- estimating the amount of profit that can be reasonably attributed to the unauthorized use or infringement
- assessing the economics of confusion and distribution claims
- examining industry licensing practices and rebranding costs
- assessing allegations of unfair competition stemming from the unauthorized use or infringement.

## MISAPPROPRIATION OF TRADE SECRETS

We have provided testimony regarding lost profits, unjust enrichment, and reasonable royalty in a number of cases involving allegations of misappropriation of trade secrets. Often our work in these matters involves determining the extent to which an alleged infringer or misappropriator has generated incremental benefits from use of the subject IP. In these cases, our professionals examine a number of variables including the nature of the trade secrets and the degree to which the defendants employed the trade secrets. When relevant, we have also evaluated industry-standard compensation terms and plaintiffs' historical compensation systems.

## IP BREACH OF CONTRACT

Our firm often is asked to analyze damages resulting from a company's alleged failure to fulfill its contractual obligations. These alleged breaches can include failure to use "best efforts" in executing the terms of a contract, failure to satisfy product-launch requirements, and failure of full and adequate performance.

Drawing on economic, industrial, and technological expertise, we have calculated damages in many such cases and have analyzed lost profits due to circumstances including product-launch delay, limited market penetration, and reduced probability of product approval.

## COMMERCIAL SUCCESS

The quantitative assessment of commercial success often requires our consultants to distinguish between the observed market performance of the product or technology embodying the intellectual property and the relevant contribution by that patented invention to market performance. In several matters, we have provided testimony regarding commercial success.

The size and cost of patent litigation grew substantially over the past few years. According to a 2003 report by the American Intellectual Property Law Association, the average cost of a patent case with over \$25 million in damages at stake is about \$3.9 million. Litigation with damages of \$1 million–\$25 million costs about \$2 million ...As the stakes grow and costs increase, patent cases have become more complex.

IP LAW AND BUSINESS, JULY 2005

## IRREPARABLE HARM

In IP litigation, plaintiffs frequently seek injunctions to halt the ongoing production and sale of the product or technology in dispute. We have assisted clients in determining whether the possible harm to competition can be duly compensated through a damages award at a later point.

## IP LEGAL MALPRACTICE

Malpractice allegations typically involve failure to seek patent protection or sufficiently broad patent protection. Clients have retained us to evaluate the market potential of certain inventions, assess the competitive landscape, and determine the royalty fees that might have been paid but for the alleged malpractice.

**SPECIALIZED EXPERTISE** The expertise we bring to IP engagements is augmented by knowledge of dispute areas and industries that are often the focus of IP claims. Our experience in several of these areas is described below.

#### VALUATION

Strategies for achieving growth and expansion, licensing, cross-licensing, sale, acquisition, and tax planning all require accurate valuation. Analysis Group consultants have applied rigorous economic and financial techniques to value IP for our clients and often, their prospective partners as well. We take care to apply the most appropriate valuation methods, given the unique issues related to each type of IP asset. Clients have also sought our experience in state-of-the-art real options approaches to valuing their investment opportunities in new products, capital equipment, and other assets. Our work is distinguished by rigorous research, a thorough knowledge of relevant market conditions, and informed judgment about the business context.

#### IP ISSUES IN LIFE SCIENCES

Our Health Care and Intellectual Property practices work collaboratively on litigation issues in the life sciences industries. We have a distinguished track record in IP matters involving medical devices as well as pharmaceutical and life sciences products. Our patent infringement, validity, and damages expert services include coordination of scientific laboratory services and data analysis. We combine our economics and industry expertise with the highest-level scientific study, overseen by leading academic experts in the scientific analysis of validity and infringement issues.

#### TAX AND TRANSFER PRICING

Intercompany pricing arrangements can play a significant role in IP matters. The factors involved in pricing goods and services between legal entities within a multinational enterprise are often complex; thoughtful economic analysis can move significant amounts of profit within a group of related companies, with a huge impact on damages computations. Our tax and transfer pricing experts frequently determine values for intellectual property assets in the context of tax disputes, as well as for reporting purposes. We have consulted across many different jurisdictions and industries on virtually every transfer pricing issue, and have consulted on transfers of intellectual property to all types of legal entities, including special-purpose limited partnerships.

#### ANTITRUST ISSUES

Allegations of patent misuse or infringement often involve an antitrust counterclaim, wherein the defendant alleges that the patent holder has attempted to inappropriately extend monopoly power conveyed by its patent. Our firm's expertise in both practice areas enables us to fully assess the antitrust and intellectual property aspects of these matters. Increasingly, our antitrust and IP professionals also work closely in matters involving the issue of intellectual property that is contributed to standard-setting bodies. Disputes can arise over whether the licensor of a technology adopted as a standard is licensing on "reasonable and nondiscriminatory terms" or is attempting to abuse its monopoly power.

## SELECTED EXPERIENCE

### TiVo v. EchoStar

In a major trial that attracted substantial media attention, a jury awarded \$74 million in damages to our client, TiVo, for violations of its patents for digital video recorders. The jury's award was based on the economic analysis and trial testimony of Analysis Group's expert.

### Regents of the University of California v. Monsanto Co.

On behalf of counsel for Monsanto, we provided expert testimony and litigation consulting in a case involving alleged infringement of recombinant DNA patent rights for bovine growth hormone. The case was settled for an amount considerably lower than the plaintiffs' damages claim.

### Colassi v. Cybex International

In a patent infringement case involving flexible treadmill decks, our expert testimony helped convince the court to settle on a damages amount considerably lower than what the plaintiffs' expert proposed.

### Bancorp v. Hartford Insurance Co.

Our client, Bancorp, alleged that the defendant had violated a confidentiality agreement and misappropriated trade secrets by selling a Bancorp-developed product. We conducted an analysis of the extent of damages suffered by Bancorp, and a federal jury awarded \$118 million.

The quality of our analyses, which include assessing lost profits, reasonable royalties, accelerated market entry, price erosion, and disgorgement of defendants' profits, frequently is important to a matter's outcome.

### Burst v. Microsoft

Counsel for Microsoft retained Analysis Group in an antitrust and intellectual property case involving software used for streaming media. We provided expert testimony concerning Burst's allegations of anticompetitive conduct, patent infringement, and trade secrets misappropriation and analyzed its claims for lost profits, reasonable royalties, and unjust enrichment damages.

### National Instruments Corp. v. The Mathworks Inc.

We provided trial and deposition testimony regarding reasonable royalties on behalf of the plaintiff in a case involving infringement of patents for graphical programming software. Our client prevailed in the federal jury trial, which resulted in a damages award equal to the amount put forward by Analysis Group's expert.

### Ortho-McNeil v. Mylan

On behalf of the plaintiff in a Hatch-Waxman litigation, we demonstrated that the advantages of one of Ortho-McNeil's most successful drugs were due, in large part, to the patent itself—not just to pricing and marketing strategies. The judge directed the FDA to change the effective date of marketing of the generic version of the drug to no earlier than the date of patent-in-suit expiration.

● **IP IN BUSINESS STRATEGY** Across industries, emerging technologies enable innovation and present alternatives to traditional business models. New technologies lead to new business opportunities and must be incorporated into product development, portfolio planning, and strategic growth decisions. Our IP and strategy consultants, together with leading academic experts, have evaluated and established corporate strategies for intellectual property. Our objective is to improve clients' strategic decision-making by providing valuations of patent portfolios, models for pricing and growth options, and product- and business-launch scenarios.

We also help clients extract maximum value from their existing IP assets by assisting them in leveraging these assets across their business; identifying opportunities to extract value from IP outside their industry; and supporting their efforts to find potential customers for their IP in unrelated businesses.

#### **STRUCTURING BUSINESS AGREEMENTS AND PARTNERSHIPS**

We have assisted clients in all aspects of identifying and evaluating partners for licensing, acquiring, or divesting assets. Such assessments often involve evaluating the market and competitive landscape for the client or target assets, estimating the incremental (economic) advances of the IP, the actions associated with those advances, and the target's possible interest in an alliance. In the context of valuing patents, we are often asked by clients to assist in structuring optimal business arrangements relevant in the sale or licensing of intellectual property. We have provided recommendations regarding the appropriate compensation structure, scope of agreement, and levels of collaboration between the parties.

#### **TECHNOLOGY TRANSFER TERMS**

Companies considering the licensing and/or sale of their intellectual property rely on us to evaluate the right level of compensation. Our work in this area has included industry pricing analysis and assessment of various transfer terms, including the appropriate amount of lump

sum royalties; benchmark payments; minimum royalties; guaranteed royalties; and royalty rates. We often provide this assistance in the context of analyzing the value of intellectual property on behalf of the patent holder or interested purchasers of the technology.

#### **PATENT LIFECYCLE MANAGEMENT**

Developing strategies for managing late lifecycle and post-expiration products is a major challenge for clients in the pharmaceutical sector. We have worked with industry leaders to develop options for patented products and franchises facing generic entry, as well as models of post-expiration performance. We have also assessed the impact of generic entry in the context of unique product benefits and competitive market conditions, drawing on sophisticated econometric models that take account of key product and market attributes. We have helped our clients evaluate and act upon authorized generic, out-licensing, and follow-on options for these late lifecycle products. Our findings have also been used to optimize product marketing and promotion strategies as products face new entrants.



## SELECTED EXPERIENCE

### Wrench LLC v. Taco Bell Corp.

We provided expert trial testimony focused on the losses incurred by Wrench due to Taco Bell's failure to pay fees associated with the Taco Bell Chihuahua character. The jury found in favor of the plaintiffs, adopting our expert's calculation of \$30.1 million in damages.

### Regents of the University of California v. Genentech

The plaintiffs alleged that Genentech had infringed their patent in its production of Protropin and Nutropin, which involve recombinant human growth hormone. We conducted economic analysis demonstrating that the defendant's profitability was negative for the patented products in question.

### Resonate, Inc. v. Nortel Networks, et al.

Alteon, a subsidiary of our client, Nortel, was sued by Resonate, which alleged that Alteon induced and contributed to its customers' infringement of Resonate's patent for URL-based server load balancing. We conducted statistical analysis of customer lists demonstrating that only a small portion of Nortel's customer base had used the allegedly infringing features.

### Matthew Reed v. Nike

A tattoo artist claimed that our client, Nike, had infringed his copyright for the tattoo he made for an NBA player, which was prominently featured in a television commercial. We assessed reasonable royalties and profits attributable to the use of the image.

The in-depth economic analysis we provide our clients, in both litigation and business strategy contexts, is complemented by our familiarity with knowledge-based industries. Over the years, we have worked on thousands of engagements, involving numerous products, technologies, and processes.

### Summit Technology v. Nidek

In a patent infringement matter involving laser vision correction equipment, we provided expert testimony on lost profits and reasonable royalty damages on behalf of the plaintiff. A federal jury awarded \$17.2 million in damages.

### The P.O. Market, Inc. v. Wal-Mart Stores, Inc.

The plaintiff claimed that Wal-Mart acted wrongfully after the companies had unsuccessfully negotiated to develop a credit system for Wal-Mart's subsidiary, Sam's Club. On behalf of the plaintiff, we provided expert testimony regarding lost profits and unjust enrichment from theft of trade secrets.

### McMahon Marketing v. Toyota

On behalf of the defendant in a trade secret case involving development of a luxury hotel partnership with Toyota, we evaluated plaintiff claims for lost income and disgorgement of profits and presented alternative damages estimates.

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*For more information on our Intellectual Property practice, including staff and expert biographies and additional case experience, visit our website: [www.analysisgroup.com](http://www.analysisgroup.com).*

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Analysis Group provides economic, financial, and business strategy consulting to leading law firms, Fortune 500 companies, and government agencies.

Founded in 1981, with more than 500 professional staff, we assist law firms with all aspects of litigation and advise corporations and government clients on business issues that require expert analysis and interpretation of economic and financial data.

We help organizations create strategies for innovation and growth.



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