

Services and Capabilities

A 3D perspective view of a grid of blue cubes. One cube in the lower-right quadrant is highlighted with a bright yellow glow, standing out from the rest of the uniform blue cubes.

## Intellectual Property Economics

*Our team of experts offers an unmatched combination of economic credentials, industry expertise, and testifying experience.*



The aggressive exploitation of intellectual property rights has led to greater scrutiny in court proceedings, boardrooms, and legislatures about how those rights should be valued. As a result of this increased scrutiny, companies and their counsel, along with courts and policymakers, are increasingly adopting a valuation framework based upon economic principles to understand and address complex IP matters. With this increased focus on quantitative economic analysis, the shortcomings of valuation methods based on rules-of-thumb and standard accounting allocations are ever more apparent.

For half a century, NERA experts have been central to client success in some of the world's highest-profile cases related to litigation, regulation, and business challenges. NERA helps its clients by employing a combination of economic theory and cutting-edge quantitative techniques, grounded in a thorough understanding of market facts, to provide practical approaches to, strategies for, and analyses of the IP challenges facing our clients. Our insights are grounded by our experience gained in academia, business, and regulatory agencies. NERA economists go beyond abstract principles to analyze all available evidence before presenting their analyses in a clear, conclusive, and defensible manner. We understand that there are high stakes in most of our assignments, and we take extraordinary measures to ensure the robustness of our work. Our analyses have been presented in hundreds of proceedings involving IP disputes, and the testimony of NERA experts has withstood scrutiny in numerous forums.

## NERA's Global Intellectual Property Practice



NERA has developed one of the largest in-house teams of economists in the economic consulting world. Our Global Intellectual Property Practice applies rigorous economic analysis in IP disputes to determine damages in connection with infringement and breach-of-contract claims involving patents, trademarks, copyrights, and trade secrets, and to address such issues as irreparable harm, the commercial success of a patent, and the impact of claimed false or misleading advertising. We value IP in connection with selling or licensing negotiations, preparing required transfer pricing documentation, obtaining advance approval from a tax authority for the price of a particular trade flow, or resolving a tax controversy. We help our clients identify portions of their IP portfolios that have value, develop strategies to manage risk, and use their IP for strategic advantage in the marketplace. We also have broad experience with a range of survey techniques that can help determine, for example, the value of trade secrets, brand names, trade dress, and product claims in company advertising. Our understanding of the operation of markets across industries where IP plays a role allows us to prepare and present accurate and defensible analyses in these assignments.

***Our Global Intellectual Property Practice applies rigorous economic analysis in IP disputes to determine damages in connection with infringement and breach-of-contract claims involving patents, trademarks, copyrights, and trade secrets.***

## Areas of Focus



NERA experts' hands-on experience and deep understanding of how markets work span the range of industries and capabilities that are critical to our clients' success. Our work is grounded in a set of core principles that have always guided our efforts: focus, independence, defensibility, and clarity. In the field of intellectual property economics, our areas of focus include:

### **Patent Misuse and Antitrust Counterclaims**

NERA's IP experts often work on issues at the intersection of antitrust and IP law, and in these matters we apply rigorous analytical techniques to questions of market definition, competitive injury, and damages. We have experience analyzing a wide range of industries and have presented economic analyses in legal and regulatory proceedings involving antitrust counterclaims, as well as antitrust issues relating to standard setting, licensing, and issues surrounding the value of IP acquired in mergers. We are frequently retained to assess both liability issues (e.g., market definition, market power, and likelihood of anticompetitive effects) and damages.

### **Patent Validity—Commercial Success**

A firm that is (or expects to be) accused of infringing a patent typically claims the patent is invalid. One legal test for showing invalidity is to demonstrate that the patent claims are "obvious." One legal test for determining obviousness is to consider whether the patented products embodying the patented technology have been commercially successful. NERA experts are often asked to evaluate the commercial success of patented products (most often, pharmaceutical products).



### Preliminary Injunction Issues

NERA economists help to determine whether an IP owner may suffer “irreparable harm” caused by the sales of an infringing product. NERA has evaluated the extent to which a patent owner’s damages can be calculated (to a reasonable degree of certainty) between the time of the case filing and trial. To the extent that such damages cannot be entirely or reasonably quantified, or would likely be considered speculative by the trial court, the patent owner may be able to make a legal showing of irreparable harm and, in so doing, obtain an injunction.

### Damages Analysis

Firms may become involved in a variety of IP disputes involving damages claims, including allegations of infringement, breaches of contract, malpractice, antitrust counterclaims, and pricing disputes. NERA’s IP experts have assessed damages flowing from the alleged behavior in each of those types of cases. Our analyses include assessments of lost profits on lost sales, price erosion, reasonable royalties, unjust enrichment, and lost business value. NERA has extensive experience determining damages in connection with claims involving:

- Breach of contract
- Legal malpractice
- Trade secret misappropriation
- False and misleading advertising
- Copyright infringement
- Patent infringement
- Trademark infringement

### Survey, Sampling, and Analysis

NERA experts often provide evidence, analysis, and support to clients in IP matters in the areas of survey and sampling. We have conducted surveys establishing trademark confusion, trade dress confusion, secondary meaning, dilution, and false advertising. We apply rigorous methods to address infringement, estimate damages, and provide our clients with valuations of their IP. In addition, our experts have designed, implemented, and analyzed samples of products to estimate what percentage is infringing on trademarks, copyrights, or patents. We are also experienced in assessing damages from alleged trade dress infringement. NERA economists evaluate alternatives to the alleged behavior, taking into account other relevant factors that may influence consumers’ purchase decisions, and to provide accurate assessments of the incremental value of the trade dress at issue.

### Non-Litigation Valuation

The proper valuation of intellectual property assets requires a thorough consideration of the market in which those assets will be used. NERA economists understand that a defensible valuation of IP assets, while forward-looking, must be grounded in careful consideration of relevant facts about the economic conditions in those markets. Our experts apply rigorous economic analysis to the valuation of IP assets in a variety of contexts, including: loss of IP legal protection; the internal transfer price for the use of IP assets across divisions of a multinational corporation; and the consideration of the proper value of an IP asset or portfolio in connection with its possible sale or license.

## Case Profiles

NERA's experts bring to bear a passion for finding the right answer. The following case profiles illustrate the breadth of our intellectual property experience.

### *In Re: Idearc Inc., et al.*

Idearc, a publisher of print and Internet directories, including Verizon-branded Yellow Pages, filed for Chapter 11 bankruptcy in early 2009. Among other things, unsecured creditors claimed (1) the secured creditors' interest in Idearc's registered copyrights was not perfected; and (2) the bulk of Idearc's value—flowing from Idearc's contracts for advertising in its Yellow Pages directories—resided in Idearc's registered copyrights. NERA was retained by counsel for secured creditors to value those copyrights and to rebut the unsecured creditors' valuation.

The unsecured creditors' expert relied on a "residual method" and concluded the bulk of Idearc's value resided in its copyrights. Following accepted valuation approaches, NERA concluded the value of the copyrights was de minimis, and that the opposing expert's methodology was flawed, unreliable, and inapt for valuing the assets at issue. At trial, NERA helped secured creditors' counsel develop arguments for a motion to exclude the opposing expert. The bankruptcy court granted the motion to exclude, concluding the expert's analysis was flawed, speculative, and unreliable for the valuation task.

### **Footwear Trademark Survey**

A well-known footwear company created a shoe using the company's unique design. Another company mimicked the design's highly recognizable features, sparking a trademark infringement case. The shoemaker retained NERA to test whether consumers would assume that the copied shoe's features made them think it was made by the plaintiff. NERA designed and conducted a statistically accurate survey and found the mimicked design did indeed lead to considerable confusion among consumers. The case was settled in favor of the plaintiff.





### ***Ortho-McNeil Pharmaceutical v. Mylan Laboratories***

United States Patent No. 5,053,407 discloses the anti-infective drug levofloxacin, sold by NERA's client Ortho-McNeil under the brand name Levaquin®. Mylan contended that the patent was invalid due to obviousness and other reasons and announced its intention to introduce a generic equivalent before the '407 patent expired. Exactly one year after a NERA economist testified that the patented invention was a commercial success, the District Court ruled that the '407 patent is not invalid and that Mylan would infringe the patent if it introduced a generic version of levofloxacin prior to the patent's expiration. Citing several NERA calculations, the Judge wrote: "The patented invention in this case has indisputably enjoyed extraordinary commercial success... Levofloxacin was a commercial success on its own merits, a factor which weighs in favor of nonobviousness."

### ***Applied Biosystems, Inc. v. Illumina, Inc. et al.***

Applied Biosystems, Inc. ("AB") had developed and built many of the DNA sequencing machines that were used in sequencing human DNA in the Human Genome project. Illumina claimed that AB's next generation of DNA sequencing technology, the SOLiD™ system, infringed three of its patents. At trial, the jury was asked to determine whether one of the patents was valid, whether AB infringed the patent, and if so, what reasonable royalties should be paid for its infringement. Both sides agreed that the patent, if valid and infringed, was first infringed by a small research company that AB later purchased. Retained as damages experts, NERA economists rebutted a number of claims made by the plaintiff's damages expert at trial. NERA's expert presented his own reasonable royalty analysis based on a rigorous construction of the minimum royalty Illumina would have been likely to accept and the maximum royalty the research unit would have been willing to pay. These calculations were supported by other licenses signed by the research unit during the uncertain pre-commercialization stage of its research. After a seven-day trial in the US District Court for the Northern District of California, the jury unanimously decided that the SOLiD™ system did not infringe the Illumina patent, though it found that the patent was valid.



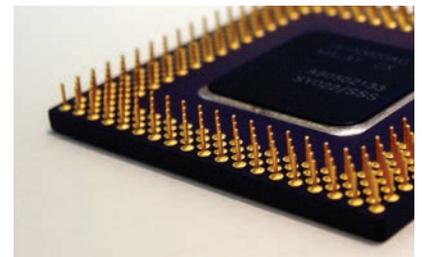
### ***Boston Scientific Corp. et al. v. Johnson & Johnson et al.***

In 2002, Boston Scientific Corporation ("BSC") sued Johnson & Johnson and its Cordis subsidiary for infringement of several balloon catheter technology patents known as the Kastenhofer patents. Cordis counterclaimed that BSC was infringing three of Cordis's balloon catheter technology patents known collectively as the Fontirroche patents. Following a jury trial that found for Cordis, Cordis sought a judgment on the issue of damages resulting from BSC's infringement of the Fontirroche patent. The Court found that it would be appropriate to award Cordis equitable relief in the form of either an injunction or an ongoing royalty. To determine the reasonable ongoing royalty to be awarded to Cordis, an evidentiary hearing was held on 2 February 2009.

Cordis retained NERA to provide economic analysis and testimony concerning the reasonable ongoing royalty to be awarded to Cordis. Based on his analysis, NERA's expert concluded that a reasonable royalty for ongoing, post-verdict sales would fall between 5.1 percent and 14.8 percent, and that 6 percent would be a reasonable outcome to the hypothetical negotiation. On 9 April 2009, US District Judge Susan Illston found that a reasonable royalty to be awarded to Cordis is 5.1 percent of sales of infringing BSC catheters sold alone or as part of a stent delivery system.

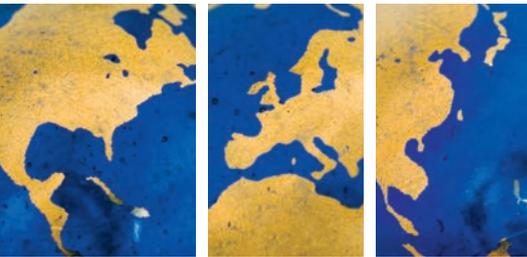
### **Rambus Trial**

Rambus Inc. filed a lawsuit against several major semiconductor chip manufacturers, claiming patent infringement and seeking royalties from the companies' use of Rambus's dynamic random access memory (DRAM) technology. Three of the chip manufacturers—Hynix Semiconductor, Nanya Technology, and Micron Technology—countersued, accusing Rambus of fraud and violation of antitrust laws. The manufacturers alleged that they should not have to pay licensing fees to Rambus because Rambus allegedly participated in the establishment of the SDRAM standard by the JEDEC Solid State Technology Association in the early 1990s without disclosing that it was seeking patents on the technologies eventually adopted. NERA provided expert testimony that addressed the economics of standard setting, market power, and "lock-in." NERA's testimony made clear that if there were no cost-performance equivalent technologies available, Rambus's presence in the formal standard-setting process could not have affected the choice of technology. On 26 March 2008, the jury in San Jose rejected the semiconductor manufacturers' allegations of fraud and antitrust violation, finding that the chip makers did not meet their burden of proving their antitrust or fraud claims.



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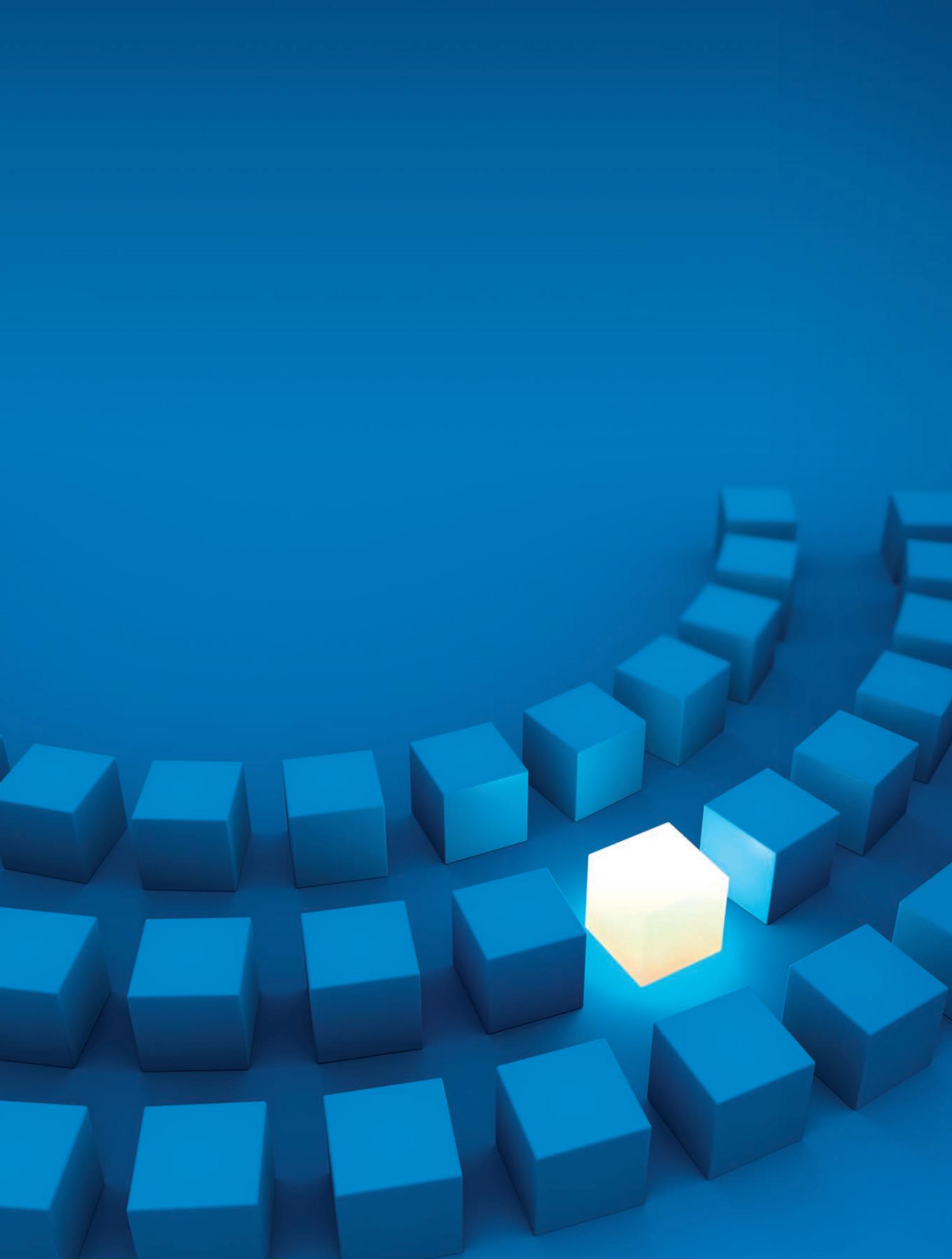
## About NERA



NERA Economic Consulting ([www.nera.com](http://www.nera.com)) is a global firm of experts dedicated to applying economic, finance, and quantitative principles to complex business and legal challenges. For over half a century, NERA's economists have been creating strategies, studies, reports, expert testimony, and policy recommendations for government authorities and the world's leading law firms and corporations. We bring academic rigor, objectivity, and real world industry experience to bear on issues arising from competition, regulation, public policy, strategy, finance, and litigation.

NERA's clients value our ability to apply and communicate state-of-the-art approaches clearly and convincingly, our commitment to deliver unbiased findings, and our reputation for quality and independence. Our clients rely on the integrity and skills of our unparalleled team of economists and other experts backed by the resources and reliability of one of the world's largest economic consultancies. With its main office in New York City, NERA serves clients from more than 25 offices across North America, Europe, and Asia Pacific.

For more information about our capabilities and services in Intellectual Property Economics, please visit [www.nera.com/ip](http://www.nera.com/ip).





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