

What We Know (or Don't Know) About IP & Entrepreneurship: A Practical Perspective

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Does IP Matter In Building A Successful Enterprise?

- Not just an academic question
- Important **strategic and operational** question for startups and their investors
- Startups must focus on their “core competencies” and manage their capital wisely
- Questions for the entrepreneur:
 - Should I consider IP to be a “core competency” of the company?
 - Even if IP is not a “core competency,” can I afford to ignore IP?
 - Given the limited \$\$\$, how much should I allocate to IP?
 - Can I learn from past successes and failures of others?

First Case Study

- Southern California software startup
 - Breakthrough technology in delivering content to mobile phones
 - Technology originated in Asia and licensed to startup
 - Patent applications filed in Asia with PCT filings, but no U.S. patent applications yet
 - Significant demand in technology from customers/partners in Asia, Europe and U.S.
 - Continuing evolution of technology based on customer interactions
- Company is concerned about losing its innovative edge to competitors and partners/customers with deeper pockets

Second Case Study

- Silicon Valley semiconductor fabless startup
 - Innovative manufacturing process
 - Patent applications filed but no issued patents
 - Entering into a highly competitive market but with lower per-chip cost due to manufacturing process
 - Chips fabricated overseas through partnerships with fabrication facilities
 - Design is done in U.S.
- Company is concerned about more established competitors suing for patent infringement in order to disrupt sales / fund raising / cash flow and to prevent price erosion

Offensive & Defensive Perspectives on IP

- Just like any competitive game – you have to play both offense and defense
- Offensive Perspective
 - Do I need to legally protect my inventions and proprietary know-how? If so, how? At what cost?
 - Need to prioritize and act proactively
 - Increasing levels of protection with increasing costs: trade secrets, copyrights, patents
- Defensive Perspective
 - What steps can I take to minimize the potential threat and costs of an IP lawsuit? Simply defending an IP lawsuit can drive a startup into bankruptcy
 - Need to assess threats / risk levels and take appropriate precautions before the threats materialize
 - Precautionary measures: NDAs, corroborated engineering notebooks, defensive patent filings & copyright registrations, IP defense insurance

Common IP Questions Asked By Entrepreneurs

- Can I patent non-technical ideas?
- Is there a way to offset the costs of building a patent portfolio?
- Should I be concerned about other people's patents?
- How can I prepare my company for a potential IP lawsuit?

Can I patent non-technical ideas?

- The *State Street* decision
 - Yes, business methods may be patented. According to *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), “Patentability does not turn on whether the claimed method does “business” instead of something else, but on whether the method, viewed as a whole, meets the [statutory] requirements of patentability”
 - “The question of whether a claim encompasses statutory subject matter [and may be patented] should...focus...[solely] on the essential characteristics of the subject matter, in particular, its **practical utility**”
- *State Street* revisited: *In re Bilski and Rand A. Warsaw*
 - The U.S. Court of Appeals for the Federal Circuit has granted a hearing *en banc* to assess whether *State Street Bank* should be revisited and possibly overturned in the context of a business method for managing consumption risks for commodity providers
 - American Intellectual Property Association has filed an *amicus* brief in support of affirming *State Street*’s “practical utility test” for determining the allowance of patents for business methods

Is there a way to offset the costs of building a patent portfolio?

- One positive outcome from the recent rise in IP litigation is the heightened level of interest in the value of IP within the investment community
- Consider seeking separate funding for the company's IP portfolio
 - Maybe different from investors investing based on the company's operational business plan
 - Set up an IP holding company with licenses to the operational company
- Consider IP securitization
 - For companies with a track record of generating royalties based on IP
 - Patent pooling consortiums
 - Patent-backed loans based on value of patent portfolio with patent value insurance provided by an insurance carrier
 - IP-securitized bonds (e.g., music royalties, pharmaceutical patents)

Should I be concerned about other people's patents?

- Willful Infringement

- A willful infringer is a potential infringer with **actual notice** of another's patent rights
- Willful infringers risk **treble damages** if found liable for patent infringement
- According to *Underwater Devices Inc. v. Morrisson-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983), "Where...a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. Such an affirmative duty, includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity"

- Advice of Counsel Defense

- In order to satisfy the duty of due care and avoid liability as a willful infringer, potential infringers may seek and obtain a written "opinion" from counsel as to whether or not their activity is infringing and/or whether the patent is valid
- In this way, an accused willful infringer can establish that, due to reasonable reliance on advice from counsel, its continued accused activities were done in good faith, and avoid treble damages

Should I be concerned about other people's patents? (cont.)

- Effect on Attorney-Client Privilege and the Work-Product Doctrine
 - *In re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007), addressed the question of whether a party's assertion of the advice of counsel defense to willful infringement extends waiver of the attorney-client privilege and/or work product immunity to communications with that party's **trial counsel**
 - The court held that “[A]sserting the advice of counsel defense and disclosing opinions of opinion counsel do not constitute waiver of the attorney-client privilege [or work product immunity] for communications with trial counsel...[However] trial courts remain free to exercise their discretion in unique circumstances to extend waiver to trial counsel, such as if a party or counsel engages in chicanery.”
- Post-Seagate
 - “Waiver by chicanery”: Some commentators believe that this language from *Seagate* may end up providing trial judges with an enormous amount of latitude in ordering waiver of privilege, so long as “unique circumstances” exist [Stephen P. Swinton & Adam A. Welland, 'Seagate' Clarifies Key Waiver Issue, The Nat'l L.J. (New York, NY), Oct. 29, 2007]
 - *Seagate's* preservation of the attorney-client privilege applies only to independent trial counsel; *i.e.*, parties that use the same firm to provide both opinion and litigation counsel will likely risk waiving the privilege

How can I prepare my company for a potential IP lawsuit?

- Costs of defending against an IP lawsuit
 - The most recent American Intellectual Property Law Association Survey (2005) concluded that the average patent case costs each party well over \$1 million in legal fees and related third-party expenses. On a nationwide median involving cases greater than \$25 million, each party will spend \$4.5 million litigating a patent case.
 - In total, alleged infringers bear expected costs of over \$16 billion per year
- Consider IP defense insurance
 - Such insurance reimburses your company for legal expenses if you have to defend yourself against lawsuits brought in the U.S. for patent/trademark/copyright infringement or when you assert invalidity as a defense to a charge of patent/trademark/copyright infringement
 - Common features of IP defense insurance:
 - Insured usually selects counsel of his/her choice and dictates settlement terms
 - Premium quotes are determined on a case by case basis; minimum premiums for one company range from \$1,700 for \$100,000 (75/25 co-pay) to \$8,600 for \$1,000,000 (75/25 co-pay)
 - Premium often may be paid annually or can be financed over a 9-12 month period with a percentage down-payment

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