



**Software & Information
Industry Association**
BUILDING THE DIGITAL ECONOMY

Managing IP Risk in Day-to-Day Business Operations

- How to Avoid Getting Sued -

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Sponsored by Foley & Lardner LLP

Moderator

David Luetzgen

Partner, Foley & Lardner LLP

- Member, Electronics Practice and Insurance Industry Team
- Practices in various patent law cases
- Assisted numerous software clients pursue patent protection for business processes
- Represents numerous clients in software matters with a focus on financial services, insurance, and health care industries



Topics to be covered:

- Conducting due diligence before investing in third-party technologies or companies
- Conducting freedom-to-operate patent searches
- Conducting periodic assessments of competitors' IP
- Putting into place effective programs for tracking, following and complying with non-disclosure agreements
- Identifying and monitoring IP litigation within the industry to identify litigious players
- Building an IP portfolio for defensive purposes

What is “due diligence”?

- General concept; term is used in many contexts
 - securities offerings
 - M&A
- Generally: Refers to the exercise of reasonable prudence before embarking on a particular course of action
 - Look before you leap
- Present context: Refers generally to the exercise of reasonable prudence before investing in 3rd party technology
 - Make sure you get what you paid for
 - Avoid buying a lawsuit

Example: Weyerhaeuser Co. v. Lambert

- Spinoff company used infringing technology

\$200M Stated Sale Price

+ \$279M Undetected Patent Liability

= \$479M Actual Sale Price

Weyerhaeuser (cont'd)

- “Paragon's loss of the P&G patent case in late 1997 and the \$279 million in damages and injunction that were issued set in motion Paragon's bankruptcy filing, the company said.”
- Weyerhaeuser Company v. Lambert, case number 1:05-cv-01144, U.S. District Court for the Northern District of Georgia. Sources: “Court Tells Weyerhaeuser to Pay \$460M for Paragon Damages,” The Wall Street Journal, April 5, 2005; “Judge Orders Weyerhaeuser To Pay \$458M For Spinning Off Patent Liability,” IP Law Bulletin, April 6, 2005; “Judge Reverses \$458M Award Against Weyerhaeuser,” IPLaw360, October 2, 2007.

What situations give rise to the need to perform due diligence?

- Red Flag: Significant investment in new technology
 - Joint development, vendor outsourcing
 - Acquisition of company
- Each situation is unique
 - Different situations create different levels/types of risk
 - Due diligence performed in view of reasons behind technology investment

Example: Purchase of pre-packaged technology

- Example scenario: purchase of 500 site licenses for standard software package
- Relatively low risk
 - One of many customers
 - Customer is not typical target
 - May be able to procure non-infringing alternative
 - May be able to seek refund of purchase price
- Little (if any) due diligence typically performed

Example: Technology development agreement

- Example Scenario:
 - Version 1.0 software currently performs function X.
 - Version 2.0 software is to perform function X + Y.
 - Vendor to be engaged to add function Y
- Issues:
 - Has anybody patented function Y?
 - Has anybody patented the combination of X+Y?
 - Does the vendor own its own technology, or does somebody else own it?
 - What is the origin of the software?
 - Copyright ownership? Trade secret ownership?
 - Is vendor able to stand behind indemnifications, if any?

Example: Purchase of interest in technology company

- Example Scenario:
 - Target company offers product X
 - Target company has never been sued for IP infringement.
 - Purchaser wants to buy target company
- Issue: Will the purchaser be able to continue exploiting the technology?
 - Why has the target company never been sued?
 - Because it does not infringe third-party IP?
 - Because its activities are too small to be noticed?
 - What are the risks of litigation post-acquisition?
 - Will increased sales change economics of litigation?

IP Due Diligence Steps

1. Analyze Competitive Landscape
2. Identify Technology Assets
3. Prioritize
4. Identify Corresponding Intellectual Property
5. Determine Scope of Protection Provided by IP Assets

IP Due Diligence Steps (Cont'd)

6. Verify “Exploitability” of IP Assets
7. Conduct Non-Infringement Investigation
8. Review Warranties and Indemnities
9. Review Any Other Considerations
10. Establish a Value

Due Diligence – final points

- How much diligence is due?
 - Based on level of risk, level of risk tolerance, amount of money being spent, and other factors
 - Large investments typically merit more due diligence than small investments.
- What result:
 - Renegotiate terms
 - Lower purchase price
 - Reallocation of risk
 - Walk away from transaction

Carl A. Kukkonen, III

- Partner in San Diego Office of Mintz Levin
- Practice focuses on strategic intellectual property counseling for high tech and cleantech companies
 - *Represent software companies ranging in size from SAP AG and Fair Isaac Corporation to smaller Web 2.0 and telecommunications software start-ups*
 - Patent prosecution
 - Development of overall IP strategy
 - Adoption of best practices to harvest patentable subject matter
 - Adoption of best practice to avoid infringing third party rights
 - Strategy driven by business goals and not just technology
 - IP Diligence in connection with investments and business combinations

Patent Rights

- A patent gives its owner the right to exclude others from making, using, selling, offering to sell, and importing a patented invention
- Patent infringement occurs when a third party conducts one of such acts without permission from the patent owner
 - *Owner of patent may not be able to practice their own patented invention without infringing third party rights*
- Companies offering products and services must be careful to avoid infringing patents
 - *Independent development of technology is not a defense to patent infringement*

Product / Service Clearance

- Freedom to operate (FTO) searches can be utilized to provide assurances that new product or service releases will not be infringing third party patents
- Prudent practices dictate that FTO searches at a minimum be conducted prior to product or service launch
 - *FTO cannot be conducted until scope of product is well defined*
 - *FTO searches should also be conducted periodically after product launch*
 - Updating an FTO may identify new patents that have issued after product launch
 - Geographic scope of FTO should be expanded to include new countries in which product is being offered
 - Some software patents can take 5-8 years or more to issue

How to Conduct FTO Searches?

- Search online patent databases for most relevant patents and patent applications
 - *Key word search based on technology*
 - *Assignee search based on company name*
 - *Inventor search based on identified employees of competitors*
 - Inventor search can be useful when patent applications have been published but not issued as patent applications often do not include assignee information
- Who to conduct search?
 - *Patent attorney*
 - *Third party searcher*
 - *In-house engineer / scientist*

What Happens if you Receive a Letter from a Patent Holder?

- IMPORTANT: Do not ignore the letter
- Although letter may be vaguely worded, its merits must be determined
 - *Some letters may simply suggest that certain patents may be of interest to addressee*
 - *Other letters will demand that recipient immediately cease and desist allegedly infringing activity*
 - *Determine whether there is a colorable claim of infringement*
 - Obtain opinion of non-infringement from patent counsel?
 - Conduct design-around of current product or service?
 - Initiate action against patent holder seeking a determination that patent is invalid or not infringed?
- Seek advice of counsel

What happens if something relevant is identified in FTO search or elsewhere?

- Determination must be made whether claims of patent or patent application arguably read on product or service
- When one has notice of another's patent rights, he has a duty of due care to determine whether or not he is infringing
 - *Complying with duty of care can help defeat a charge of willful patent infringement*
 - Enhanced damages
 - Awards of attorneys fees
 - *Best way to defend against a charge of willful infringement is to obtain and rely upon a competent opinion of counsel stating that there was no infringement of a valid claim of the patent at issue*

Monitoring Competitor Patents

- Conduct periodic assignee searches for issued patents of known competitors
 - *Services are available which will automatically track patent issuances*
 - *Monitor foreign patent families for US patents of interest*
 - Consider filing an opposition in foreign jurisdictions such as in Europe and Japan
 - Opposition can result in claims being canceled altogether or being narrowed in scope
- Conduct periodic assignee and inventor searches of pending patent applications
 - *Monitor patent applications as they are about to issue*

Best Practices / Precautions

- Assemble core team (e.g., patent committee) to handle issues relating to infringement analyses
- Consider adopting policies that scientists and engineers are not allowed to read third party patents
 - *Avoid issue of whether duty of care is triggered when scientist or engineers learns of relevant patents*
 - *At a minimum, limit discussions to a small selected group of employees*
- Avoid internal e-mail and written chatter regarding third party patents
 - *Such communications may be discoverable during litigation*
 - Used to show that infringement was willful and that enhanced damages and attorneys fees should be awarded

Presenter

W. Keith Robinson

Associate, Foley & Lardner LLP

- Member of Foley's Intellectual Property Electronics Practice Group
- Focuses on electrical engineering and computer software
- Represents numerous clients in software matters with a focus on web applications and Internet technology



Monitoring IP Litigation

- Advantages of monitoring IP litigation
- Using the acquired information
- Tools for monitoring IP litigation

Monitoring IP Litigation

Advantages of monitoring IP litigation

- Identify entities seeking to aggressively enforce their patents
- Determine litigious technology areas
- Understand potential competitor activity
- Identify potential licensees
- Assist in planning design around efforts

Monitoring IP Litigation

Using the acquired information

- Track activity of litigious entities
- Evaluate products of litigious entities for potential licensing opportunities
- Determine whether licensing opportunities exist with potential infringers
- Design around troublesome patents

Monitoring IP Litigation

Tools for monitoring IP litigation

- Traditional Legal Resources: Lexis and Westlaw
 - Receive alerts on newly filed law suits
 - Monitor specific jurisdictions
 - Monitor specific litigants
 - Track course of litigation
- Industry Specific resources
 - IPLaw360: litigation alerts, judgments and settlements
 - VOIP Monitor: voice over IP issues
- General News Services
 - Press releases on licensing and settlements

Nondisclosure Agreements

- Basic requirements for nondisclosure agreements (NDAs)
- Internal and external NDAs
- Tracking and complying with NDAs

Nondisclosure Agreements

Basic requirements for NDAs

- Prohibit a party from disclosing information without permission
- Prohibit use of information for any purpose other than performing the terms of the agreement
- Enforceable under basic principles of contract law
- A system for creating and tracking NDAs is an essential element of a company's data security policy

Nondisclosure Agreements

Internal and external NDAs

- Agreements with employees
 - Can be condition of employment or part of employee contract
 - Should require past employee to advise new employer of restrictions under the agreement

- Agreements with outside entities
 - Vendors
 - Outside Contractors
 - Business partners

Nondisclosure Agreements

Tracking and complying with NDAs

- Identify which stakeholders have come in contact with a given invention
- Remind employees and third parties that a NDA governs the relationship
 - Review nondisclosure policies
 - Redistribute these policies to your employees, contractors, vendors and business partners
- Execute NDAs “automatically” when entering into business relationships

Building a Patent Portfolio

- Benefits of strong patent portfolio
- Core elements of patent portfolio
- Steps to building patent portfolio
- Standard procedures and policies

Building a Patent Portfolio

Benefits of strong patent portfolio

- Protects business innovation
- Provides a defense against patent infringement
- Deters competitors from copying certain features of the patent holder's product or entering the market
- Gains recognition for a company
- Makes a company more attractive to prospective partners and investors

Building a Patent Portfolio

Core elements of patent portfolio

- IP central to the core business
 - Commercial embodiments
 - NDAs
- Tangential IP
 - Costs of maintaining IP
 - Licensing opportunities
- Future innovation

Building a Patent Portfolio

Steps to building patent portfolio

- Conduct an audit of existing IP
 - Inventorship is correct
 - IP is correctly assigned
 - Claims cover commercial embodiments

- File patents on improvements to core technology
 - Build a “fence” around core technology
 - Generates additional licensing opportunities

- Create a prior art library
 - Save prior art discovered during patentability searches and cited during prosecution
 - Generate whitepapers
 - Be aware of IDS issues that may arise

Building a Patent Portfolio

Steps to building patent portfolio

- Use resources efficiently to protect potentially valuable innovation
 - File provisional applications: defer costs while preserving IP rights
 - File non-provisional applications
- Seek patent protection in areas where competitors are most likely to invest
 - Monitor patent applications and allowances: published patent applications may be a barometer of future business activity
- Patent your design around solutions

Building a Patent Portfolio

Standard procedures and policies

- Reward innovation
- Identify potentially valuable innovation, e.g., establish a patent review counsel
- Explore exit strategies
- Evaluate your patent portfolio regularly

Q&A

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Thank You!

A recording of this webcast and accompanying slides will be made available within the next 48 hours.