

MINIMIZING EXPOSURE TO IP LITIGATION AND MAXIMIZING IP ASSETS

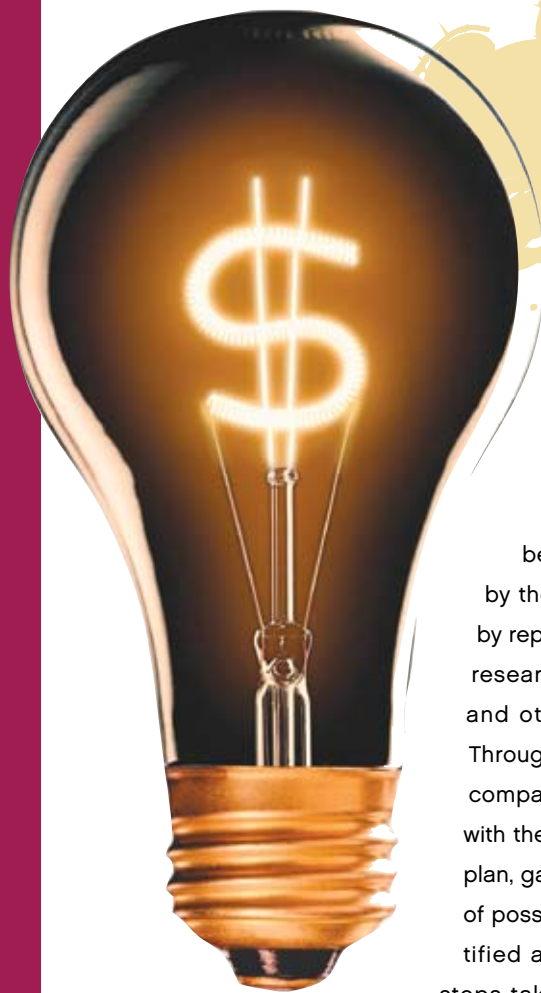
Intellectual property (“IP”) is critically important in today’s business world. This article outlines the basics of how a company can protect itself from the devastating effects of IP litigation brought against it, while perfecting its own IP. The types of IP treated are patents, trademarks, and trade secrets.

Anyone who has been on the wrong end of an adverse ruling in an intellectual property case knows how devastating IP litigation can be. Adverse judgments in patent cases often run to hundreds of millions, or even billions, of dollars and may include injunctions that shut down important product lines. Trademark and trade secret cases may also result in high monetary judgments and troublesome injunctions. Successful IP strategies include steps to avoid IP litigation and minimize the effects of any such litigation that does arise.

The strategy requires a long-term perspective. The prevention strategy should be implemented at the earliest possible time, preferably at startup, when capital is sparse. The strategy also envisions perfecting IP assets at the same time, since a company with strong IP assets is a less appealing defendant to an IP case. Because every part of the strategy requires expenses for which there may be no current return, implementation of the strategy requires the recognition that it is necessary to make expenditures early on to avoid catastrophic losses later.







SINCE PATENT AND OTHER INTELLECTUAL PROPERTY RIGHTS CAN YIELD SUBSTANTIAL PROFITS IN THE FUTURE BY ENHANCING THE COMPANY'S MARKET POSITION, THE IP POLICY SHOULD INCLUDE FILING PATENT APPLICATIONS AND PERFECTING OTHER IP RIGHTS FROM THE OUTSET.

The IP policy and implementing strategy must reflect the current needs of the company and should be set and monitored not only by the legal department, but also by representatives of the marketing, research and development, sales, and other affected departments. Through constant monitoring of the company's IP assets in comparison with the company's current business plan, gaps in IP protection and areas of possible IP litigation can be identified and the necessary remedial steps taken. Similarly, IP assets that are not aligned with the company's current business can be licensed or sold, and/or the funding for maintaining them can be diverted to more critical areas.

A direct relationship exists between IP litigation prevention and IP asset perfection. A strong IP position creates a substantial likelihood that the company could lodge meritorious counterclaims against any company that sues it. A company that has managed its IP assets well is also likely to have taken all the proper steps to minimize or mitigate litigation by ensuring that it has a strong legal position if it is sued.

DEVELOPING AN IP POLICY

Since patent and other IP rights can yield substantial profits in the future by enhancing the company's market position, the IP policy should include filing patent applications and perfecting other IP rights from the outset. Unless appropriate

measures are taken from the start to minimize the effects of, or to prevent being a defendant in, an IP case, catastrophic judgments and injunctions down the road could wipe out years of research and development and cost-saving efforts. These two objectives should be the lodestars of IP policy. For new companies, the IP policy should allocate enough of the precious capital in the startup years to achieve these objectives.

Since the IP policy should reflect the company's current business plan, it should be formulated not just by counsel, but also by representatives of the marketing, research and development, business development, and other departments affected by IP rights. IP policy naturally should be consistent with the company's business mission. The business plan may change from year to year, and the IP management policy should take into account the company's current business and goals, as well as its future goals, products, and intentions. If an inventory of the company's current IP assets is not available, an IP audit should be conducted.

The policy should also take into account what key competitors are doing. Sales and marketing departments should monitor the new products and services offered by competitors, and the IP management group should monitor the IP rights that competitors are generating. For example, the company could place a watch on all patents, published patent applications, trademark applications, and registrations of key competitors to get an idea of the technical areas in which competitors are seeking and obtaining patent protection and the trademarks and service marks for which they claim rights.

The IP policy should include the requirement that IP counsel be consulted at all stages of IP decisions. For example, when new products are designed, patent searches should be conducted to determine whether the new designs warrant patent applications or infringe upon the rights of others. The IP management group should set up a program to inform and train employees on IP matters and procedures and monitor those procedures and company policies.

PATENTS

Audit. Patents are government-issued, limited-in-time, exclusive rights to make, have made, use, sell, and/or import the subject matter covered by their claims. United States patents are issued by the U.S. Patent and Trademark Office. Utility patents cover products, processes, compositions of matter, etc., and design patents are for the ornamental appearance of useful articles. Almost every nation in the world has its own patent office.

To conduct an audit of the company's patent rights, its patent counsel can provide a list of the present patents and patent applications owned by the company and those in the process of being prepared. (All IP audits mentioned herein should be conducted through or under the direction of counsel so that the work of the audit team is preserved as attorney-client privileged or work product information.) There are also a number of searchable databases from which one can compile the publicly available information on a company's patent filings.

Litigation Prevention—Patents. Many industries are patent-intensive, and it may not be possible to “prevent” patent litigation. It is possible, however, to minimize litigation, and mitigate its effects, by appropriate planning. The term “prevention” is used herein to connote such planning.

Monitoring the patent rights being sought and/or obtained by the company's competitors is a criti-

cal part of litigation prevention. Patent watches for patents issued to all important competitors and for their published patent applications should be established in key countries. Typically, the countries would include the United States, Germany (site of the European Patent Office), Japan, and nations of particular interest to the company's business. Such monitoring of competitors' actual and potential patent rights enables the company to take appropriate action to minimize litigation as well as perfect its own patent rights.

From a prevention standpoint, the company can “stake out” its own area of technology by its patent filings and attempt to avoid those technical areas in which competitors have superior rights. If a substantial question arises as to whether the company infringes a competitor's patent, steps can be taken to address the issue before it becomes a problem. For important products, the company should seek freedom-to-operate opinions from counsel to determine whether the company can function effectively in the market with the product, and if appropriate, counsel can assist in redesigning a product to “design around” the patent claims of others.

Another form of prevention is the availability of an arsenal of patents that can be asserted in counterclaims. The company may have patent rights on the same subject matter that the competitor might need so that patent claims can be drafted to create a “blocking” situation.

When a formal notice of infringement is received (typically a “cease and desist” letter), it should be entrusted to patent counsel for handling. It is critical that the notice be handled properly to avoid a finding of “willful infringement,” which can triple an adverse judgment. Even though an opinion of counsel is not absolutely essential to avoiding a finding of willfulness, a properly prepared opinion of counsel is still the best defense to a willfulness charge. The opinion should be prepared by an independent, competent patent attorney who is

fully informed of all pertinent facts. The opinion should be based on a review of the file history and all cited prior art. The appropriate decision makers and client personnel must review the opinion thoroughly, check it for technical accuracy, and decide to rely on it. A lawyer's letter to the file that is not thoroughly reviewed by the client is of little value in establishing reliance on advice of counsel.

IP Perfection—Patents. Implementation of an IP strategy requires that all personnel involved be educated in the process. Employees should be trained, by special classes or seminars if necessary, to understand what patents are, how they need to be protected, and how important the timely recording and reporting of their work is to the process of creating a valuable patent portfolio. The perfection policy should include uniform procedures for filing new applications, including invention disclosure forms, information disclosure statements, and routine prior art searches to determine whether or not a patent application might be worthwhile.

Employment agreements should include an acknowledgment that all discoveries made during the period of employment belong to the company and that the employee will cooperate fully in the prosecution of patent applications and litigation. Lab notebooks should be issued to employees likely to invent, and these employees should be instructed in the proper procedure for keeping those notebooks to ensure that their ideas, experiments, tests, trials, and results are captured, signed, and witnessed as their work progresses to maximize the prospects of meaningful protection. Compliance with the procedure should be monitored.

The company's research and development, current products, and future product plans should be constantly monitored to ensure that patent protection is being sought on the "core" technology of the company. This process may also

reveal that some of the patent assets owned by the company are on technology not being practiced by the company; these may be potential candidates for sale or license. By analyzing its business and technological objectives, the company can devote its resources to protecting subject matter that it wishes to exploit commercially while withdrawing funds from areas it no longer wishes to exploit.

The ongoing monitoring of competitive products will show when a competitor's product may infringe an existing patent and when claims in the company's pending or about-to-be-filed applications can be drawn to cover competitive products. The patents can then be exploited through litigation, licensing, cross-licensing, or other business relationships advantageous to the company.

The exact manner in which a patent portfolio is generated depends on the characteristics of the company and its market. Is the field crowded with patents, is it a very litigious field for patents, do competitors readily license or cross-license each other? The answers to these and similar questions will help determine the best patent strategy. Any strategy includes patenting the core technology and business methods of the company. If funds are limited, provisional applications (which are less expensive) can be filed for other technologies. The strategy may also involve defensive publications of incremental improvements that help deter competitors from patenting improvements that would block or limit the company's marketing effectiveness.

If resources are available, more aggressive "offensive" patent strategies can be considered. These include a "picket fence" strategy of patenting every improvement or small incremental innovation around a competitor's core technology as a barrier to the competitor's effective use of its technology. This can set up a cross-licensing situation. Other strategies include "design-around patents" for a company's own patents to prevent

TRADEMARK

competitors from designing around them, “toll gate patents” on the next generation of a competitor’s technology to block the competitor’s progress in that direction, and the acquisition of patents in areas of current or future interest.

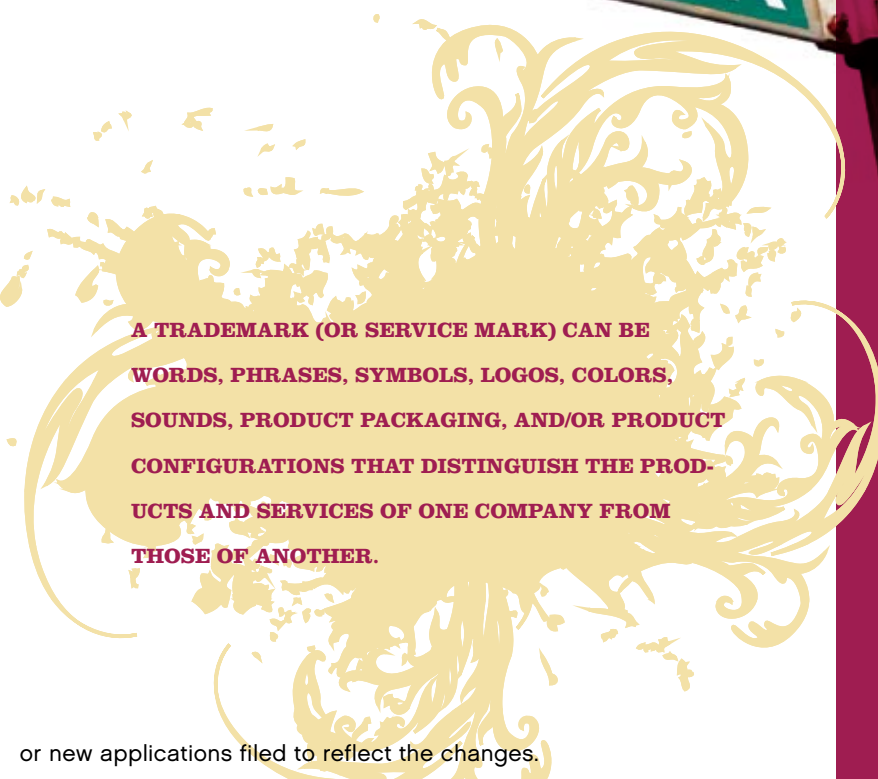
TRADEMARKS

Audit. A trademark (or service mark) can be words, phrases, symbols, logos, colors, sounds, product packaging, and/or product configurations that distinguish the products and services of one company from those of another. Trademarks do not expire, so long as the mark is continually used. It is preferable that significant trademarks also be registered.

One part of the trademark audit is the determination of what trademark and service mark registrations and applications a company has. This can be prepared by trademark counsel or by conducting a search by company name or names through both U.S. and non-U.S. databases for trademark registrations and applications.

The other part of the audit is the determination of just what trademarks and service marks the company is using. The audit requires a review of all of the company’s business units to determine the products and services that are offered, and all names, slogans, and devices that are used in connection with those goods and services. The inventory should also include marks that the company is licensing from or to others. A comparison of the marks actually used with those registered reveals two things. First, it reveals to the company important marks that are not the subject of registrations, for which applications can be prepared. Second, it reveals marks that are no longer of importance to the company. The latter rights can be sold, licensed, or no longer maintained.

The audit will also show whether the logos or basic trademarks have been updated (such as to give them a more contemporary look), so that the original registrations may be amended



A TRADEMARK (OR SERVICE MARK) CAN BE WORDS, PHRASES, SYMBOLS, LOGOS, COLORS, SOUNDS, PRODUCT PACKAGING, AND/OR PRODUCT CONFIGURATIONS THAT DISTINGUISH THE PRODUCTS AND SERVICES OF ONE COMPANY FROM THOSE OF ANOTHER.

or new applications filed to reflect the changes. Similarly, if the range of goods or services for which the marks were originally registered has been expanded, registrations can be appropriately amended or added to the portfolio.

Litigation Prevention—Trademarks. Trademark litigation usually involves the issue of likelihood of confusion. The principal strategy for avoiding trademark litigation is the careful selection of trademarks. A thorough search of all prior trademark usages, whether registered or common law, should be conducted whenever a new trademark is selected, to ensure that the mark does not raise the likelihood of confusion with any existing trademark rights. A number of databases are available for these searches, for both U.S. and non-U.S. usages.

The same precautions should be taken with an important mark already in use that has not been previously vetted. A trademark search

may reveal prior uses of the mark in geographical areas into which the company wishes to expand, which could block the anticipated expansion. The company could then take appropriate action, such as buying the prior rights or changing the mark, to avoid further investment in a mark that may not be justified.

Another aspect of trademark infringement is the use of another company's trademark in a company's web site or search engine. The strategy should include monitoring the company's use of the other's marks on the internet.

IP Perfection–Trademarks. The perfection of marks involves the proper selection, protection, and usage of trademarks. In selecting marks, it is important to choose distinctive trademarks that have secondary meaning, either intrinsically or by usage. Fanciful, arbitrary, and suggestive trademarks are inherently distinctive and can be registered immediately, while merely descriptive marks are not eligible for protection until they have acquired “distinctiveness” through use in the marketplace, which usually takes five years. Generic marks, which are simply the names of the products, should be avoided because they cannot acquire trademark significance.

All significant marks should be registered. If they are used in interstate commerce, they can be registered in the U.S. Patent and Trademark Office; these registrations can be renewed indefinitely so long as the marks are still in use for the goods for which they are registered. Marks used outside the U.S. should be registered in their respective countries, and state registrations may be beneficial in some circumstances. The use of trademarks should be monitored so that when a mark is used with new goods or services, its registration can be amended or a new application can be filed to reflect that change.

The proper usage of marks should also be monitored. A trademark should not be used as the name of the product, but rather as a designation of the product's origin with the company. If the mark is federally registered, the symbol ® should appear next to the mark where used; if the mark is not yet registered but is used as a trademark, the symbol ™ (or ℠ for “service mark”) should appear with it.

Once established, marks must be enforced by preventing others from infringing them. Sales and marketing departments should be alerted to the need to detect potential infringing usages and report them to counsel. Counsel will then police the marks by sending cease-and-desist letters to infringers and, if necessary, instituting litigation to stop infringers from using them. Failure to police marks in the face of infringing use can lead to the loss of the trademark rights altogether.

TRADE SECRETS

Audit. A trade secret is information that derives independent economic value from not being “generally known” or “readily ascertainable by proper means.” Generally, a trade secret must provide the company with a tangible competitive edge, and the company must have taken reasonable efforts to maintain its secrecy.

A company's trade secrets necessarily vary with the nature of its business. Confidential information that gives the company an advantage over its competitors can be found in any area of the company. Examples include:

- Financial data (confidential costs, profit margins, etc.).
- Marketing information, including future marketing plans.
- Customer lists, if not easily ascertained.
- Formulas.
- New product designs.
- Manufacturing methods and innovations.
- Research and development.
- Organization information.
- Other proprietary information important to the business.

Litigation Prevention–Trade Secrets. All reasonable steps must be taken to ensure that no employees possess, use, or disclose trade secrets of a third party for the company's benefit. The process starts in the pre-hiring stage, when prospective employees are asked whether they have a duty of confidentiality to any prior employers; if so, they should be specifically admonished to honor such obligations. The general nature (but not the details) of the trade secrets possessed by the new hire should be determined so as to assign the person to a job where she would not inevitably use that information. Background checks may also be employed, especially for applicants for highly sensitive positions.

The company should advise employees that its policy is to respect the intellectual property, including trade secrets, of third parties. The employment agreement should also include a warranty and representation that the employee will not use, disclose, or otherwise compromise the confidential information of a third party for the company's benefit. Contractors and consultants should be told the same thing at the beginning of the relationship, and their contracts should have the same warranty.

If it is found that trade secrets of a third party have been compromised for the company's benefit, the responsible employee should be appropriately reprimanded, any potential harm should be dissipated immediately, and counsel should be consulted for any additional steps needed.

IP Perfection—Trade Secrets. The perfection of the company's own trade secrets starts, once again, with the training of its employees, with particular emphasis on ensuring that the employees comprehend the nature and value of the information entrusted to them and the need to maintain it in confidence. Many disclosures are inadvertent, occurring not through malice but through the carelessness of employees who do not realize the value of the information. Such disclosures can be prevented only by instituting appropriate training.

Employment agreements should also require employees to maintain the confidential, proprietary information of the company in confidence, both during their employment and thereafter. In states where they are permitted, covenants not to compete after termination should also be included in the employment agreement. (The enforceability of such clauses varies from state to state. Some states, such as California, do not enforce these clauses in most contexts, while other states, such as Florida, do recognize them.)

Access to sensitive facilities, such as research labs and production facilities where an employee might observe trade secrets, should be strictly controlled. Sensitive areas should be sealed off and access carefully monitored. All persons who go into the area should sign appropriate confidentiality agreements and be advised of the confidential nature of what they are seeing. Similarly, documents that disclose confidential and trade secret material should be clearly marked as such, and care should be taken to

mark only those documents that should be so marked. Electronic databases that contain proprietary information should be password-controlled and otherwise limited to persons on a need-to-know basis. Encryption and notices of confidentiality can also be used on electronic files of confidential information.

It is critical that the security programs be strictly implemented and monitored to ensure that confidentiality is preserved. Confidential information can often be found in drawings, sketches, prototypes and notes, drafts of marketing campaigns, customer lists, form lists, and manufacturing know-how, among other things. Marking documents "confidential" not only tends to protect them, but also tends to reinforce in the minds of employees that they should store their confidential material in a secure place, such as a locked filing cabinet or a password-protected or encoded electronic file.

The final step in the process is the exit interview. When an employee leaves the company, she should be reminded of the ongoing duty of confidentiality and of the types of information she possesses that are deemed trade secrets. These admonitions should be reduced to writing and then signed by the departing employee so that she cannot later claim that she had no notice of the company's position.

CONCLUSION

Each company's IP policy must be tailored to its own individual needs. The points outlined above are general guidelines for creating and implementing a policy that minimizes the effects of IP litigation and maximizes the strength of the company's IP portfolio. The creation of a policy for a particular company requires the coordinated and ongoing efforts of all departments affected by the policy. ►►

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