WHAT IS IP GOOD FOR?

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OUTLINE

- Prelude: forms and reality of IP
- Freedom to operate (protecting from IP)
- Proprietary position (strategy based on IP)
- Management (profiting from IP)
I: PRELUDE: FORMS OF IP

- Patent
- Copyright
- Trademark
- Trade secret
- Inherent protection (+ DMCA 1998)
- Standard-based
- Regulation-based
• Some economic points:
  – Patent:
    • $20-30K typical to obtain in US, up to $1M globally
    • Presumption of validity
    • $3 to 5M per side for litigation (+ scientist and management time)
  – Trademark: value depends on advertising
  – Trade secret: difficulty of litigating without giving away secret
LEGAL REALITY II

• Intellectual pendulum:
  – Weak IP; strong antitrust 1930 – 1980
  – Strong IP; weak antitrust 1980 – 20??

• Exemplified by:
  – Creation of CAFC – 1982
  – DMCA – 1998

• But
  – Supreme Court cautions 2005 . . .
II: FREEDOM TO OPERATE

• Freedom to operate as basic task
  – Protecting against threats from competitors
  – Protecting against threats from outsiders

• Classic example: TI in 1980s

• Recent examples:
  – *Grokster* (2005)
  – Blackberry (2006)
THE TI STORY

- TI sued Japanese competitors 1985-86 (US competitors later)
- One of key patents disclosed in 1968 (encapsulation)
- Litigation success: royalties v profits, ultimate industry-wide licenses
- Lesson: build a patent portfolio and, if your product isn’t doing well, sue your competitors
- Perverse incentives
DEALING WITH COMPETITORS

• In pharmaceutical/biotechnology industry, review designs to make sure they don’t infringe

• In electronics/computers
  – Build a patent portfolio
  – Prohibit engineers from reading competitor’s patents (because of willful infringement doctrine)
  – Be prepared to threaten countersuit, or negotiate a cross-license agreement

• Open source
  – Linux and GNU
  – Possible biotechnology analogues
DEALING WITH NON-COMPETITORS

- Patent trolls
- Defenses:
  - Litigation strategy? (when to cave?)
    (Blackberry)
  - Change the law
    - Availability of injunction? – legislative discussion
    - MercExchange v. eBay 2006
  - Avoid the jurisdiction (diagnostic and research-tool patents)
III: PROPRIETARY POSITION

- Need for a proprietary position to provide return on R & D investment
- Standard methods
  - Trademark
  - Patent
  - Copyright
  - Trade secret
  - Inherent protection
  - Standard
  - Regulation
- Multiple coverage typical
PHARMACEUTICAL EXAMPLE

- Patent as basic protection for a new product
- Supplemented by regulatory exclusivity – which may extend beyond patent term. (These are the Hatch-Waxman games)
- Possible separate patents on the drug and the method of using it
- Data protection (control over the scientific data provided to obtain certification)
SOFTWARE EXAMPLE

*software, DVD, videogame*

- Trademark
- Standard
- Copyright
- Patent
- Trade secret, e.g. license agreement (shrink-wrap/click-wrap)
- Embedded software protections (and Digital Millennium Copyright Act)
HYBRID CORN EXAMPLE

• Trademark
• Patent (+ special plant variety protection rights)
• License agreement
  – Includes clauses prohibiting reuse, defining forum, and permitting access to farmer’s fields
• Inherent (biological) protection
  – Hybrid
  – “Genetic use restriction technology”
MORE ON TRADE SECRETS

• Standard contexts:
  – Direct theft of data or material
  – Violation of contract – typically with employee or with ally
TRADE SECRETS AND PRODUCTS

- Have seen software and hybrid corn
- Important new example: embedded software
  - Automobile & dealer/spare part network
- Similar patterns to control aftermarket
  - DMCA & printer cartridges, games etc.
- Enforceability of restrictions? DMCA v.
  traditional judicial presumption in favor of reverse engineering
TRADE SECRETS AND EMLOYMENT

• Role of employee contracts in deterring new spin-offs
  – Difference between CA and other contexts
  – Implications for Valley’s industrial structure
• Relation to criminal law world (*Avant!* 2001)
• Obvious line-drawing issues
STANDARDS & IP

- Importance of standards
- Patenting or copyrighting a standard
- Patent pools and standards (e.g., MPEG, 3G Patent Platform)
- Antitrust issues of integrating standards with patents (*Rambus*, FTC - 2006)
IV: PROFITING FROM IP

- The “IP management” concept
- Normal examples
  - University – OTL
  - IBM, TI, Lucent
  - Trolls (which sometimes buy portfolios from companies in bankruptcy) (one person’s troll is another person’s IP manager)
- Being heavily imitated
MAKING IP MANAGEMENT WORK: LICENSING

- Obtaining and advertising a patent not enough
- Need understanding of industry and a working network
- Licenses to VC startups v licenses to existing firms
- Actual returns relatively small (a few % on research base for universities, ~ 16 % for IBM, ~ 9 % for Lucent)
MAKING IP MANAGEMENT WORK: LITIGATION

- Heavy reliance on cost of litigation
- Use of portfolios of patents and of threats
- Threat of injunction important (and going away)
OVERALL IMPLICATIONS

• IP sometimes does but doesn’t always help encourage innovation
• Essential to relate IP strategy closely to business strategy
• Major differences from industry to industry
  – pharmaceutical
  – semiconductor
  – biotechnology
THANK YOU

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