

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

LEGAL REALITY I



- Some economic points:
 - Patent:
 - \$ 20-30 K typical to obtain in US, up to \$ 1 M globally
 - Presumption of validity
 - \$ 3 to 5 M 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
 - Unanimous studies (NAS, FTC/DOJ . . .) 2003 . . .
 - 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 EMPLOYMENT



- 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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