Boston Entrepreneurs Network

*Patents and the Business Proposition of IP*


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Stephen Y. Chow, Esq., SM, CIPP
What “IP”? 

- Public discourse: **Hundreds of billions** of dollars of US IP stolen by Chinese each year.

- Personal experience over forty years:
  - *Xerox v. IBM*: 1976 copier secrets; antitrust v. patents, Uniform Trade Secrets Act (1979); antipathy to software patents
  - Digital Equipment/Cisco – 1985 NIH to 2005 patent premium
  - *State Street v. Signature Financial* – 1998 high-water mark
  - *Amazon v. Barnes & Noble* – 1999 patent gold rush
  - *eBay/America Invents Act* – 2006-present limitation of patents
  - Defend Trade Secrets Act 2016? Return to trade secrecy
Identifying IP Assets

- Goodwill (identity)
  - Trademarks, Service marks
  - Trade (company) names, Domain names (“.com”)
- Ideas (processes)
  - Trade secrets, “confidential information”, “know-how”
  - Patents – “useful” (technological) applications, designs
- Expression of ideas (text incl. source code, images)
  - Copyright
- Regulatory approvals
- Privacy (personal, commercial privacy trade secrets)
- Extension by contract (licensing, non-compete)
Value in traditional “property” is the right to exclude

- Strict liability for trespass/infringement
  - Compare unfair competition, e.g., “intentional tort” of “misappropriation” of trade secrets
  - Patent does not give right to practice v. “blocking” patent
- “metes and bounds” of exclusive area (market)
  - Patent claims (examined, software claims too vague?)
  - Copyrights: publication with notice dropped 1978
- Transferability
  - trademarks/goodwill transferable “in gross”
- Fundamental change in 2006: eBay (injunction not presumed) following Kelo (eminent domain)
Why IP If Now Less “Property”?

• Market definition (packaging)
  • Technology dissemination: platform definition
  • Product/service purchaser perception – innovative technology
  • Enterprise purchaser/investor perception
    • enterprise definition (what is being sold or licensed)
    • barrier to or cloud on later entrant (affecting investment)

• Cross-licensing
  • Defense
  • Standards contribution or strategic alliance

• Monetization
  • Enterprise valuation
  • Recovery of residual value of discontinued enterprise
  • Aggregation, including standardization
Ownership/Allocation of IP

Caution in employment, joint development, sales:

- **Default “ownership”** of IP is in inventor(s), author
  - employee may take ordinary skills, experience and knowledge

- **Copyrights**
  - “work for hire” is only for actual employee and certain works; contractors need to assign in writing
  - some types of open source software licenses create problems

- **Patents**
  - “hired to invent” creates a duty to assign
  - “shop right”: non-exclusive license to
  - “Magic words”: “I hereby grant”, otherwise just duty
  - each joint owner (patentee) may license independently – destroying exclusivity and value; have one owning entity
Leveraging IP by “Contract”

• “Contracts” are used to leverage IP rights:
  • Software “licensing”: “clickwrap contract” to restrict use (based on alleged permission required to load a machine code program into main memory based on copyright in source code
  • Material transfer agreements and other distribution agreements often retain ownership of materials, restrict reverse engineering
  • Non-compete agreements (including for employees) are justified by “confidential information” often circularly defined

• Restrictive contracts in US v. EU
  • Vertical restraints (resale price maintenance) no longer *per se* antitrust violation at US federal level
  • Grant-backs (of technology) and no-reverse engineering challenged more in EU which is based on “a single market” and interoperability
  • Recent cases on “exhaustion” and “standards-essential patents” signal new life in US antitrust