

Alternative IP Structures for Tech Alliances and Creative Dealmaking

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WHY DO IP IN HAWAII?

- Expanding Your Market Beyond our Islands
 - When you are ready to sell outside Hawaii, will you be able to?
- Local Resources are Limited and Expensive
 - Land
 - Natural resources
 - Labor
 - IP weighs nothing and takes up no space

WHY DO IP IN HAWAII?

- Income without having to provide goods or services
- Income for intellectual efforts
- Portable
 - from your house in Ka`u

WHY DO IP IN HAWAII?

- Level the Playing Field
 - Raw materials (information) at mainland prices
 - Price of labor?
 - Skill level?
 - Same laws (federal and international laws)
 - Same taxes?
 - Plan (in order) to avoid paying higher taxes

TYPES OF IP

- Patents
 - Inventions
- Trademarks
 - Indicators of source or origin
- Copyrights
 - Works of original authorship
- Trade Secrets
 - Anything that holds (greater) economic value by being maintained in secret

PATENTS

- Scheme of Federal Protection
 - United States Patent and Trademark Office
- Limited term
- Utility patents
- Design patents
- Plant patents
- Compare seed protection

PATENTS

- Utility patents
 - New and useful processes, machines, articles of manufacture, compositions of matter, or improvements
 - Business methods, software, genetically modified organisms
 - Novel and unobvious
 - Term 20 years from filing
 - Maintenance fees

PATENTS

- Design Patents
 - Ornamental designs for articles of manufacture
 - 14 year term
- Plant Patents
 - New and distinct asexually reproduced plant varieties
- Seed Protection
 - New and distinct sexually reproduced plant varieties

PATENTS – RECENT DEVELOPMENTS

- Business Methods
 - No longer need to claim in the context a “technological art”, I. e., no longer need to implement by way of a computer, etc. *Ex Parte Lundgren*, (Brd. Pat. App., No. 2003-2088 October 2005)

PATENTS – RECENT DEVELOPMENTS

- No More Submarine Patents
 - Laches can apply to invalidate submarine patents. *Symbol Technologies vs. Lemelson*, 422 F.3d 1378 (Fed. Cir. 2005), amended in part on rehearing, 429 F.3d 1051 (Fed. Cir. 2005).
 - Substantially a non-issue under the new patent term

ACQUIRING DOMESTIC PATENT PROTECTION

- Written Records of Acts of Invention
 - Document Disclosure Program
- Prior Art Search
- USPTO Application
 - Provisional vs. Non-provisional
 - Seed protection through the Department of Agriculture
- Before publication (or within one year of)
- Before sale or offer for sale (or within one year of)
- Before public use other than experimental (or within one year of)

FOREIGN PATENT PROTECTION

- Before publication, sale or offer of sale, or public use
- Within one year of first (U.S.) filing
- Individual country filings through foreign correspondents under the Paris Convention
- Multiple country filings under the Patent Cooperation Treaty with entry into national phases through foreign correspondents (now) within 30 months of first filing
- Regional Patent Protection
 - European patents

ENFORCING AND DEFENDING AGAINST PATENTS

- Federal court lawsuit
- International Trade Commission
- Customs
- Re-Examination USPTO Proceedings
 - Limited to prior art challenges
- Opinions of Counsel
- Insurance

TYPICAL PATENT PROTECTION TIMELINE

- Take rights
 - Employment agreements, assignments
- Document invention and date while maintaining confidential
- File a first application (priority date) before publication, sale or offer of sale, or public use
- File a PCT within one year of priority date (and a non-provisional if first application was a provisional)
- File national phase applications within 30 months of priority date

“BRANDS”

- Trademarks and Service Marks
 - Any word, name, symbol or device or any combination thereof
 - Used by a person to identify or distinguish his or her goods and services from those manufactured or sold by others
 - Indicator of source or origin

MARK VARIETIES

- Business names and Trade names functioning as marks
- Word Trademarks and Service Marks
- Symbols and Logo Marks
- Domain Names

WHY TRADEMARK PROTECTION?

- Protect goodwill of the business to which the source identifier attaches
- Prevent unjust enrichment resulting from misappropriation of mark or goodwill
- Promote competition
- Protect consumer expectation and the public interest

TRADEMARK SPECTRUM OF DISTINCTIVENESS

- Arbitrary and Fanciful = ®
Ivory, Apple; Xerox
- Suggestive = ®
Playboy Q-Tips
- Descriptive = ® sometimes
Chapstick Tender Vittles
- Generic = no ®
Escalator Thermos

TRADEMARK SPECTRUM OF DISTINCTIVENESS

- Descriptive
 - *Chapstick Tender Vittles*
 - Immediately conveys ingredients, qualities or characteristics
 - ® only with acquired distinctiveness, demonstrated secondary meaning
- Generic
 - *escalator thermos*
 - No ® - monopolistic to protect

PROTECTED AT BOTH STATE AND FEDERAL LEVELS

- At common law (federal through state)
 - Via adoption and use
- State statutory law
 - State register = constructive notice
 - Statutory remedies
- Federal Protection
 - Registration with USPTO ®
 - Lanham Act unfair competition

STATE VS. FEDERAL TRADEMARK REGISTRATION

- State
 - Just use-based applications
 - Five year term, renewable forever
 - Provides statewide protection against the registration and use of confusingly similar and against dilution
- Federal
 - Either use-based or intent to use applications
 - Ten year term with an initial five year filing, renewable forever
 - Provides nationwide protection against the registration and use of confusingly similar marks and against dilution

FOREIGN TRADEMARK PROTECTION

- Filing individual applications through foreign correspondents
 - Paris Convention priority if filed within 6 months of a first filing in a Paris Convention country
- Regional Protection - European Community
- Filing an International Application under the Madrid Protocol
 - US joined last 11/03
 - Currently 70 plus other countries members and the EU as a regional member
 - Greatly reduced fees
 - Paris Convention priority

TRADEMARK ENFORCEMENT AND DEFENSE

- Lawsuits for Infringement and Dilution
 - Federal or state court
- Customs
- USPTO Opposition and Cancellation proceedings
- Insurance

DOMAIN NAMES

- Can be marks
- Can infringe and dilute marks
- Anti-cyber Squatting Consumer Protection Act
- Hawaii's Anti-cyber Piracy Act
- ICANN UDRP

COPYRIGHTS

Works of original authorship fixed
in a tangible medium of expression

- Fine Art
- Music
- Photographs
- Film
- Architecture
- Websites
- Sculpture
- Literature
- Software
 - Look and feel
 - Code

COPYRIGHTS

- Federal protection
- Term: life of the author plus 70 years
- Automatic
 - © without registration
- Registration
 - Cheap and easy
 - Required to obtain the more valuable legal remedies

FOREIGN COPYRIGHT

- Foreign protection automatic under the Berne Convention
- Quality and scope of protection determined by the law of the country

ENFORCEMENT AND DEFENSE OF COPYRIGHT

- Infringement lawsuits
 - Federal court only
 - Statutory damages and attorneys fees
- Customs
- Insurance

TRADE SECRETS

- Anything that retains its economic value by being maintained in confidence
 - The “know how” related to an invention or operating business
 - Customer and vendor contacts, pricing, company financials
 - Business and marketing plans

TRADE SECRETS

- Must demonstrate reasonable measures to preserve confidentiality
- Theft by breach of contractual or fiduciary relationship
- State and federal statutes

ISSUES FOR THE NEW ENTERPRISE

- Ownership
 - Scope of employment
 - Employment agreement
 - Independent contractor
- IP Audit
 - Works produced by employees and independent contractors
 - Use of third party works
- Alternative IP Strategies

IP AUDITS

Dual Goal:

- Offensive
 - Tack down and protect what you have, think you have and should realize you have
- Defensive
 - Avoid exposure for inadvertent or careless infringement of third party IP rights

IP AUDITS

- Copyright Subject Matter
 - Software
 - Manuals
 - Promotional and instructional videos
 - Advertising and publicity
 - Websites

IP AUDITS

- Patent Subject Matter
 - Hardware
 - Software
 - Biotech
 - Mechanical
 - Business methods

IP AUDITS

- Trademark Subject Matter
 - Business Name
 - Symbols and Marks
- Trade Secret Subject Matter
 - Non Compete Agreements
 - Non Disclosure Agreements
 - Recruiting Executives and Engineers

ALTERNATIVE IP STRATEGIES: EXPLOIT, SELL AND/OR LICENSE

- Work the IP
 - Manufacture and sale
- Sell or License
 - Lump sum or income stream
 - Installment sale
 - Tax treatment
- Options to Buy/License

ALTERNATIVE IP STRATEGIES:

- Valuation and risk
 - Highest value immediate or delayed
 - Does market appreciate value; does owner/inventor exaggerate value
- Combinations
 - Work and license (to non-competitive fields of use)
 - Sell/license and act as independent contractor/consultant to transfer “know-how”
 - Sale and license grant back for specific field of use

LICENSING

- All Types of IP
- Exclusive vs. Non-Exclusive
- By Territory
- By Industry or Field of Use
- Monetary Terms
 - Front loaded/back loaded
 - Lump sum, percentage, sliding scale
- Term/Options
- Minimums - by value or volume

LICENSING BRANDS

Value (goodwill) comes from the investment in PR, not from the name or idea

Quality control restrictions, otherwise “naked license” with loose of TM rights

But quality control may = Franchise with expensive registrations requirements

Cross-promotion, cooperative advertising and cross-branding

McDonald's Disney character “premiums”

But has limits

LICENSING BRANDS

Valuation

- sophistication/renown
 - ongoing advertising, growth of brand
- @ of increased revenues to licensee
- @ decrease in value to licensor
 - disruption of licensor business
- burden to police
- Goodwill inures to licensor, not licensee

TRANSACTING PATENTS

Inefficient and illiquid

high transaction cost - due
diligence \$50K to \$1M

Notwithstanding, increased patent
transactions due to increased
patent supply and increased
commercial options for transacting
patent

TRANSACTING PATENTS

Purchaser Motivation/Strategic Objectives

fill gaps in coverage

remove threat of infringement

obtain leverage for cross-licensing

blocking (to avoid competition)

defensive (to avoid infringement suits)

Bolster company valuation

Generation licensing, product revenues

Contribute to joint venture

Patent pooling

TRANSACTING PATENTS

Options for Transacting Patents

Patent aggregators (industry specific)

Corporate purchase programs

Licensing/assertion spinouts

Licensing agents

Litigation funds (trolls?)

Patent brokers (8-20%)

IP investment/merchant banks

Patent auctions

non-real-time, real-time and online

TRANSACTIONING PATENTS

Even though ingenious, PATENTS DO
NOT SELL THEMSELVES

have to really work at it

Sell companies, brokers

Publicity, publication and trade shows

Select a style: cease and desist

letters vs. offers to sell based on
increased revenues analysis

Claims charts

Expert opinions

Market/usage data

TRANSACTIONING PATENTS

Patent Valuation

- subject matter scope - claims
- patent quality
- ease to design around
- territorial scope - foreign protection
- continuation, divisional patents pending
- impacted revenues, immediate and future

IP COMPANY PARTNERS

University

OTTED

DOD Dual Use Technology

Non-Profit Research Institutes

Foreign counterparts (particularly
if have foreign protection)

Corporate spinouts

Joint Ventures

Patent pooling

FUNDING THE IP COMPANY

Grants

Federal Grants

SBIR first and second stage grants

DOD dual use technology grants

Retain IP for civilian uses

Borrow

from banks, investor groups, individuals

secured by IP

Hawai'i's QHTB Tax Incentives

HAWAII'S QHTB TAX INCENTIVES

- Investor credit of 100% over 5 years
- Recover up to 2x investment (or more?)
- Refundable 20% R&D credit
 - not just increasing like the fed credit
 - even if you pay no taxes

HAWAI`I'S QHTB TAX INCENTIVES

- No state income tax on license royalties
- No state income tax stock options or like employee incentives
- But beginning this year, DOTax charging for comfort ruling and tax certifications (\$100 to \$1,000)

Thank you.

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