IP Litigation And Portfolio Management Tips

The Best IP Litigation Strategy may just be . . . to Avoid a Lawsuit in the First Place.

By Matthew L. Cutler and Joseph E. Walsh, Jr.

Protecting intellectual property (IP) only makes sense if the cost of doing so adds value to your company's bottom line. IP protection adds value by generating assets – namely: patents, trademarks, trade secrets, and copyrightable works. While it is often difficult to quantify the precise value added by IP, most companies have come to the firm conclusion that wisely spent dollars generate IP assets that protect and grow market share.

This article seeks to assist you by presenting ideas aimed at enabling you to create stronger IP assets that are less vulnerable to challenge and in ensuring that the best ideas being generated within your company receive an appropriate level of review and consideration. Implementing these strategies can greatly enhance the value of your company's IP investment and, quite possibly, assist you in avoiding IP litigation.

Preliminarily, note that each of the portfolio management ideas described below has its own particular challenges that require specific strategies. Indeed, many of the points made below derive from actual lessons learned in litigation – where foibles and mishaps at any one of the several stages in litigation come glaringly into sharp focus. As it so often is in life, most problems can be solved by spending more money on staff or outside counsel. Such a strategy, however, ignores the realities of budgets and accountability. As such, the strategies set forth below seek a middle ground by offering to add significantly to your companies' bottom line without unreasonably taxing your IP budget.

Strategy No. 1: Better patent claims = less litigation

Assuming that your company's patent attorneys can, on their own, draft patent applications and claims that will withstand the rigors of litigation or prevent competitors from entering your business/technical space is akin to "mailing in" to a custom tailor a few of your measurements and expecting him to create a suit that fits you like the proverbial "glove." As a practical matter, no one understands your business or technology better than you and your employees. Thus, you need to engage with your patent lawyers to ensure your inventions are accurately described *and* claimed in your patent applications.

Failing to spend sufficient time with your patent lawyer too often results in patent claims that are either too narrow (*i.e.*, they include unnecessary features/limitations) or which are not sufficiently directed to your actual invention (*i.e.*, the focus of the patent claims is wrong). In most instances, your patent attorney is working from limited information, such as a brief "invention disclosure" document and, possibly, from limited discussion(s) with the inventor(s). Such limited information and exchanges, however, typically do not result in the conveyance of all relevant background required for the best possible patent application and patent claims. When the application and claims are drafted in such a manner and presented to a busy inventor for review, it is all too common for the inventor(s) to say "yep, that's what I invented," and move on to approve the draft application and claims – spending no further time on the matter and not recognizing that important aspects of the invention have not been protected or even addressed.

A structured team approach is, therefore, required to generate the most valuable patents. Inventors need to be intimately involved in claim drafting, along with the patent attorney, and they must possess a broader perspective concerning what the business hopes to achieve by pursuing and acquiring patents. For example, to pressure-test their own draft patent application

Matthew Cutler is a partner at Harness, Dickey & Pierce. His practice encompasses the handling of a broad spectrum of contested intellectual property matters, including trial experience in patent, trademark, trade secret, and copyright cases. Matt also counsels clients in connection with their worldwide intellectual property portfolios. He received his B.S. degree in Chemical Engineering from the University of Notre Dame and received his J.D. degree from Washington University School of Law.

Joseph Walsh is a founding partner of the St. Louis office of Harness, Dickey & Pierce and his practice includes advising clients on patent, trademark, copyright, domain name and counterfeiting issues in the U.S. and throughout the world. Joe earned his B.S. degree in Chemistry and Business from the University of Scranton and his J.D. degree from the St. Louis University School of Law.

and claims, inventors should engage in a game whereby they look at their draft patent claims from the perspective of the competition. As they review their own draft patent claims, they should be asking themselves "How will our competitors try to get around these claim limitations? Can they make a competitive product or enter our technical realm by eliminating some of the required steps or elements specified in our draft claims; or is it possible that certain required features are defined too specifically? In other words, how would our competitors "design around" this patent claim?" These are the types of questions inventors should be asking themselves as they "evaluate" patent claims. One technique in this regard is to have the inventor(s) look at each word in a particular patent claim and decide whether each such word is *necessary* to claim the invention and define the invention over the prior art. Broader claims that avoid the prior art will force your competitors to avoid your patented technology. When patent claims are carelessly or inartfully drafted, competition can flourish and litigation can ensue.

The lesson here is the importance of emphasizing to your scientists, engineers, and technical personnel the benefits of being intimately involved in the patent claim drafting process. By keeping in mind two simple questions – "how would I design around the claim?" and "what words in the claim can I delete?" – your inventors can greatly strengthen your patents and, ultimately, save your company significant money by avoiding costly litigation or by warding off competition.

Strategy No. 2: Proper Organization Reduces Your Likelihood of Litigation

There are few areas of the law as complicated and implicating a broader cross-section of a company's assets than IP. Generally, IP includes patents, trademarks, copyrights, trade secrets/confidential information and domain names. A compounding factor is that many IP issues extend outside the U.S. and, thus, involve different laws, customs, and procedures. Maintaining a company's IP assets in an organized manner can, therefore, play a key role in successfully managing even the smallest of IP portfolios.

Undocumented innovation can result in missed opportunities to gain a competitive edge or increased market share. Worse yet, it can result in litigation where it is possible that a better organized competitor beats you to establishing and claiming rights in a particular invention or field of technology. For example, without good organization, proper records of an earlier invention may not exist and this can lead to costly litigation or missed business opportunities.

Most well-organized companies have learned to reduce costs and, possibly, avoid litigation by forming an IP committee that meets regularly (e.g., monthly, quarterly, etc.) to discuss and evaluate innovations developed by company employees. It is not uncommon in many companies that the committee is comprised only of representatives from the engineering department. Staffing the committee with employees from just one business discipline, however, can be a mistake. Having input and perspective from a company's sales and marketing personnel as well as management can be of great value in determining how and what IP a company chooses to protect. Thus, a better approach is for the committee to comprise representatives from engineering, marketing, and management having the collective mission of: 1) stimulating innovation (*i.e.,* via incentives); 2) implementing procedures for documenting and preserving innovation; 3) evaluating incoming invention disclosures to determine whether they should be protected and, if so, how; 4) overseeing the company's IP portfolio to determine how IP budgets should be apportioned; and 5) keeping an eye on competitive innovation and industries to determine the focus of future R&D efforts. Each of these functions is discussed further below.

1) Incentivizing Innovation

For many, the largest obstacle to an improved IP portfolio might just be learning about and gathering the new ideas being generated by the scientists and engineers in the company. Your IP committee can develop a simple form that elicits from your inventors a brief description of the parameters of an idea, and its benefits, together with potential market and other data that is relevant to your business. However, getting inventors to actually fill out the form can be a challenge. This challenge can usually be overcome by offering a small "reward" for submitting the form (*i.e.,* nominal cash amount, gift certificate, gas card, movie tickets, etc.). If an idea progresses to the point that a patent application is filed, and then ultimately allowed, the incentives can increase. You might be surprised at how a small gesture of this kind leads to a steady flow of innovation submissions. Your company is now identifying and tracking the IP regularly being generated and your IP committee now has information that can be turned into valuable IP assets.

2) Documenting and Preserving Inventions

In conjunction with generating a brief description of the invention, your inventors need to be trained to properly document their ideas. With regard to US patent rights, and for at least the next eighteen months,[1] the lack of formal procedures to properly document a new idea can mean the difference between you owning

1. The Leahy-Smith America Invents Act (AIA) became law on September 16, 2011. When fully implemented on March 16, 2013, America will transition to a "first-to-file" patent system instead of the "first-to-invent" system now in effect.

that invention or coming in second place to a better organized competitor – the party that can conclusively establish an earlier date of invention wins. In short, having your inventors comply with procedures for keeping accurate and complete records of their inventions can be the difference between your company and your competitor owning the rights to an important discovery or invention. Your IP committee can reinforce the importance of these procedures and ensure that your employees are properly trained to comply with the procedures.

3) Evaluating Invention Submissions

Once an innovation has been identified, the IP committee must decide whether there is sufficient business justification for taking steps to protect the innovation such as by way of a patent application, or whether an alternative strategy is more appropriate (such as protecting the idea as a trade secret). This review function is vital because the decision to file for and maintain patents in multiple countries (especially when translation fees, annuity/maintenance fees, foreign associate fees, and governmental filing fees are factored in) carries with it a significant financial investment. It is simply not practical to file a patent application on every idea that is generated, but your IP committee, comprised of legal and business representatives can help decide which innovations are most likely to help your bottom line and, thus, worthy of protection.

4) Monitoring Your IP Portfolio

It is important to regularly monitor and, if appropriate, "prune" your IP portfolio, as circumstances warrant. Your IP committee can perform a periodic review of current IP assets to determine if continued investment in them is warranted. For example, as maintenance or annuity fees come due, the IP Committee can take the opportunity to ensure that the IP investment continues to make business sense. In the alternative, it may be time to abandon certain IP assets or license/sell them.

5) Monitoring Your Competition

A last suggested function of your IP Committee is to keep a close eye on the IP assets being acquired by your competitors and the products and trends that relate to these assets. In this way, you can ensure that your company remains competitive and that others are not infringing on your company's IP rights. In addition, you will also be in a better position to ensure that your company is not infringing on the IP rights of others. It is important to note, though, that simple patent searches alone are not typically adequate to identify trends in your competitors' research and development. At best, general searching of this nature is at least 18 months out of date because patent applications are maintained in secret until being published 18 months after filing. Thus, in addition to monitoring a competitor's patent filings, it is important to keep a close eye on industry journals, competitor websites, industry trade shows, etc. that may give an advanced glimpse of where your competition is headed with its product development. You may also consider searching the public records within the Trademark Office for newly filed applications by your competitors. Companies routinely apply to register new product names long before a new product publicly debuts. In this way, your IP committee can act as something of an "oracle," aiding in setting the direction of research and development efforts on behalf of your company.

Strategy No. 3: Understand the Importance of Opinions of Counsel

Recent Supreme Court decisions regarding "willful" patent infringement have changed, somewhat, the extent to which companies must seek out the advice of counsel before entering the marketplace with a new product/idea. Generally, this is good news for business in that the standards for establishing willful infringement have been elevated.

In the past, before a new product was introduced, it was common for a company to obtain a draft "opinion of counsel" to shield the company from any later claim of "willful" patent infringement. With the change in the law, however, such letters are now perceived to be of less importance and some have altogether done away with the practice of obtaining a "freedom-to-practice" opinion of counsel before introducing a new product.

Not so fast. Many IP clients still see great value in conducting appropriate due diligence (which frequently includes an opinion of counsel) before entering the marketplace with a new product. While it is, no doubt, more difficult to prove willful patent infringement nowadays, significant value can be lost where a company makes a substantial investment in new product development, marketing, and sales, only to find out months or even years later that competitive IP covers all or some portion of the new product. While requiring time and expense, "freedom-to-practice" or 'freedom-to-operate" opinions of counsel (as they are known) are still excellent investments when you consider that a single royalty payment or the defense of even one lawsuit can pay for many such opinions.

Strategy No. 4: Strengthen Your Trade Secret Program and Avoid Litigation

You only need to understand a few aspects of trade secret law to grasp its importance to your company. First, to qualify as a trade secret, the subject information must be maintained as a secret. Second, reasonably sufficient and ongoing efforts must be made to protect such secrecy. Importantly, and unlike most other forms of IP, trade secrets have the ability to last and be enforced indefinitely as long as they remain secret and subject to legally sufficient, ongoing efforts to maintain their secrecy.

Virtually all trade secret protection programs are directed to one or both of these points. Log-in books at the entrance to a company provide, among other things, proof in a later trial that you were informing visitors of the secrecy of your operations. Guest badges for visitors provide, among other things, proof that you took efforts to identify guests from employees. Non-disclosure agreements put in writing the importance of confidentiality and bind necessary employees to secrecy. Implementing a detailed policy can translate into considerable savings in the future.

But these programs must be implemented with care. In this regard, companies often mistakenly give little thought to the specific terms in non-disclosure agreements and the like, often with disastrous results. For instance, while it is often worthwhile in a non-disclosure agreement to limit the duration of the confidential relationship between the parties, thereby guarding against a client being subject to confidentiality obligations indefinitely, the issue of how long a party must maintain confidential/trade secret information obtained during the relationship is often completely overlooked. Greater attention should be given to non-disclosure and confidentiality agreements and special attention should be paid to distinguishing between the agreed upon duration of the period during which confidential information will be exchanged between the parties and length of time each party has agreed to maintain the confidential/secret nature of specific information they receive during the period of the agreement.

Strategy No. 5: Competitive Analysis

In addition to monitoring your competitors to ensure that your products do not conflict with your competitor's IP, periodic competitive analyses can also tell you where your competitor is moving with their technology, giving you the opportunity to head them off at the pass. Various levels of analysis can be obtained from published patent applications, issued patents, and available software tools. For example, certain commercially available software programs can assess the strength of a targeted patent portfolio based on objective standards – points being allocated to numbers of claims, length of claims, pendency of the patent applications, prior art references cited, etc. Other software can identify when one of your patents has been cited in the patent prosecution of another patent. This is valuable in indicating when a company is "getting close" to your technology. Considering such data over time can highlight trends in yours and your competitors' research and development.

Strategy No. 6: Employee Agreements Ensure Your IP Rights Won't Walk Out the Door

Strong *employee* agreements (*cf.* employment agreement – which, unlike a standard employee agreement, typically specifies duration of employ and salary) that set forth specific employee obligations and requirements are especially important and useful for avoiding problems when an employee leaves your company. Among the types of issues that can be squarely dealt with in an employee agreement are: trade secret protection, ownership of inventions/inventorship rights, and reasonable covenants not to compete/restrictive covenants that can be implemented to slow or hinder a former employee's movement to a competitor.

As with our comments regarding confidentiality/non-disclosure agreements made above in Strategy 4, drafters of employee agreements should, similarly, exercise great caution when dealing with the issue of confidential/trade secret information in an employee agreement to avoid unnecessarily limiting confidentiality periods with a departing employee and, possibly, compromising trade secret protection.

Lastly, the new America Invents Act makes it easier for employers to file applications on subject matter the employees assigned or have an obligation to assign to the employer. Make sure that your employee agreement gives you the right to protect employee inventions if the employee-inventor ever becomes uncooperative.

Strategy No. 7: A Trademark Monitoring Program Can Catch Infringers Early and Bolster the Strength of Your Marks

An important fact regarding trademarks is that owners have an obligation to police their marks in the marketplace and to take steps to abate instances of infringement. Once a mark ceases to identify products or services emanating from a *single* source/company, your trademark rights are compromised. Thus, periodic market and internet searching should be conducted. Even if nothing is found, this information can provide important evidence in a future lawsuit that you (the trademark owner) have taken efforts to police your rights. Because this tactic is not a complicated undertaking, competent administrative personnel can perform this task, adding great value to your trademark portfolio.

Strategy No. 8: Have You Forfeited Damages By Failing To Mark?

To obtain past damages for patent infringement in the U.S., a patent owner must put infringers on notice of its patent rights. One way to accomplish this is by providing actual notice to a potential infringer by, for example, mailing a letter to the purported infringer. But be careful. Because of the recently reduced standards for filing declaratory judgment actions in federal court, this tactic could potentially expose the patent owner to a declaratory judgment action for non-infringement by the accused infringer.

Another means of placing potential patent infringers on notice of your patent rights is by way of "constructive notice." Constructive notice merely requires the patent owner to put the patent number on any product that is covered by the patent. This is a simple requirement that is too often overlooked by companies of all sizes. It can be accomplished by any number of means including embossing on the product or packaging and even applying adhesive stickers. Without marking, a strong past damages claim can be wiped away. Importantly, in the new America Invents Act, signed into law by President Obama in September, 2011, a company can comply with the marking provision of the Patent Act by putting the word "patent" on the product together with an address of a posting on the internet, freely accessible (i.e., at no charge) by the public, that associates the patented article with the number of the patent. This change to the Patent Act will make it much easier for businesses to meet the marking requirement.

Strategy No. 9: Consider Ex Parte Re-Examination (EPR), Inter Partes Review (IPR), or Post Grant Review (PGR) When Facing a Challenging Patent

In an effort to decrease the costs required to challenge a patent, Congress has redoubled its efforts to provide options for challenging patent validity at the Patent Office. The procedures for *Ex Parte* Re-Examination (EPR) are unchanged – this process still involves a third party submitting prior art to the Patent Office, and then taking no active role there forward.

Post Grant Review (PGR) is a new process that must be undertaken within nine months of patent issuance. In this proceeding, the Patent Office first decides if it is more likely than not that at least one of the claims is unpatentable in view of the cited art. This procedure allows for review under virtually any invalidity ground, not merely prior art documents, as was the case in the previous re-exam procedures. Because of this fact, the procedure is envisioned to require discovery, and have other similarities to actual litigation.

Inter Partes Review (IPR) is a revised version of the former *Inter Partes* Re-Examination. This form of challenge can only occur more than nine months after the issuance of the patent (that is, after the Post Grant Review period has expired). Like the former *inter partes re-examination* proceeding, a third party can submit prior art to the Patent Office and have it considered in view of an issued patent. The third party can take an active role in such proceedings.

The comparatively reasonable cost of these alternatives to litigation provides a tantalizing incentive to consider pursuing such actions. These proceedings are not, however, without their downsides. First, a patent owner can make claim amendments during reexamination. Thus, while the originally issued patent claims may now be found to be unpatentable, the patent holder can amend its claims during these PTO-based proceedings and still come out with patented subject matter. By comparison, note that it is not possible for a patent owner to make such amendments in a federal court patent infringement lawsuit. If the prior art makes the patent claims invalid, the claims are simply unenforceable and there is no finding of infringement. Second, it is often more advantageous to make use of the court system and maintain a comparatively greater degree of control over the prior art and how it is used in the lawsuit. Consider also, for example, that in both PRG and IPR, there is an estoppel effect for any prior art considered by the Patent Office.

Strategy No. 10: Consider Design Patent Protection

The law relating to design patents has recently been strengthened. Previously, to prove infringement of a design patent, a plaintiff had to prove: 1) that an "ordinary observer" would confuse the patented design with the allegedly infringing design ("Ordinary Observer" test); <u>and</u>, 2) that the allegedly infringing design incorporated the novel features of the patented design ("Point of Novelty" test). In a recent court decision, however, this test was narrowed to only require the Ordinary Observer test – a change that is believed to make it easier to prove design patent infringement.

In addition to design patents now being more valuable in light of this lower burden of proof regarding infringement, design patents have yet other advantages that are often overlooked. For example, design patents are much less expensive to obtain than utility patents. Still further, and unlike with utility patents, a successful plaintiff has the option of measuring its damages based on the defendants profits. This provides valuable leverage to successful design patent infringement plaintiffs when compared to the measures of damage available in cases of utility patent infringement.

Bonus Strategy No. 11: Actions to Take in Light of the America Invents Act

In addition to the information discussed above relating to the new America Invents Act, we include the following five additional tips that can save your company time and hassle in view of the new law:

a. File patent applications on all existing innovations before March 16, 2013. This will help avoid changes to the new anticipation and obviousness sections that take effect on that date.

b. Promptly file patent applications on all new innovations after March 16, 2013. As mentioned, the US patent system is moving to a "first to file" system from a "first to invent" system. It is paramount that you now move quickly to get your innovations to the Patent Office.

c. Do not disclose the invention to others until you have a filing date. The scope of the exceptions under new anticipation section is unclear. File for patent protection before you give third parties the ability to accidentally or purposely bar your application.

d. Don't throw away those inventors' notebooks. First to invent still applies to applications filed before March 16, 2013, so priority of invention remains an issue for at least the next eighteen months. Even after March 16, 2013, inventor notebooks or similar records could be helpful in proving that an invention was not "derived" from another.

e. Take advantage of Supplemental Examination. In less than a year, a patentee will be able to use supplemental examination to correct many actual or feared defects in a patent through supplemental examination. Note that Supplemental Examination only works if it is completed before the patent is asserted against a third party.

With all the above strategies, your IP portfolio will add significant value to your company's bottom line. While this value can be sometimes hard to quantify, experience dictates that your IP dollars will be spent more wisely and your IP assets will protect and grow market share.

❑ ❑ ❑

The President's Page *(continued from page 3)*

the cost of coverage for a same-sex spouse as a straight employee could. This forces an employer to calculate W-2 forms differently for its employees depending on whether the employee is married to someone of the same sex or not. In effect, the *amici* argue, DOMA causes them to "investigate the gender of the spouses of [their] lawfully-married employees and then to single out those employees with a same-sex spouse."

The same duality occurs in the area of retirement and pension benefits. A straight spouse is entitled to receive a portion of the employee's benefit unless the spouse expressly waives it. A gay spouse cannot do this without the employer providing a workaround, which doesn't have the same protections and benefits because of unequal taxes imposed on gay couples.

The *amici* argue that DOMA forces them to treat employees with same-sex spouses as "(1) single for the purpose of federal tax withholding, payroll taxes, and workplace benefits that turn, as most do, on marital status, and (2) married for all other purposes under state law." It also forces them to create two sets of books - one for straight married spouses and one for gay married spouses. To accomplish such a system, employers are required to incur enormous costs in complying with payroll systems, taxes and benefits. As a result, gay married employees become more expensive to hire. This makes employers have to choose between acting against their own rational self-interest by hiring them (a business decision) and hiring them because they are the best employees for a particular job (moral decision).

DOMA also interferes with an employer's ability to recruit foreign nationals or to attempt to transfer employees from overseas offices to domestic employment. If a recruited or transferred foreign national is same-sex married, they must either leave the spouse behind or try to obtain an independent visa status, at the employee's cost and with no guarantee that the visa won't expire or be rescinded.

Finally, DOMA requires companies to discriminate on the basis of sexual orientation. However, 94% of all Fortune 500 companies include sexual orientation in their nondiscrimination polices. On the one hand, gay married employees are legally married but on the other hand, DOMA requires companies to treat them in a way that's different from their straight married employees.

The couples suing are *legally* married under the laws of their state. They are not seeking the right to marry. Therefore, it seems that from a strictly business sense, DOMA flies in the face of traditional business principles. It produces an unduly burdensome regulation that intrudes on the power of states. Congress has already repealed the Military Readiness Enhancement Act, 10. U.S.C. §654 (Don't Ask Don't Tell), and it should join the executive branch and drop its appeal in those cases challenging the constitutionality of DOMA.

As always, you can reach me at 3134-621-0500, bruce.hopsonlaw@sbcglobal.net, or www.brucehopson.com or at BAMSL 314-421-4134.

❑ ❑ ❑