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# The Best Practices of Leading IP Lawyers

*An Insider Look at Successful Case Strategies,  
Understanding Client Goals, and  
Interpreting IP Laws and Trends*



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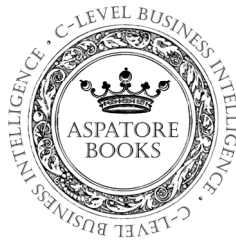
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# Building and Maintaining an Effective IP Portfolio

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## **IP Elements**

Legal protection of intellectual property (IP) is provided by four mechanisms: patents (both utility and design), trademarks, copyrights, and trade secrets. To develop and maintain an effective IP portfolio, one must carefully consider protection under each of these mechanisms. To provide a concrete example, consider the popular iPod nano. The stylistic design of the iPod nano is immediately recognizable by consumers and may be protected using design patents and trade dress (under trademark protection). Similarly, the marks “iPod,” “nano,” and the combination “iPod nano” are immediately recognizable by consumers as Apple’s product and may be protected by registered trademarks. The original success of the iPod can be traced to its simple and easy-to-operate user interface, which comprises the software and the click wheel. The software may be protected using utility patents, copyrights, and trade secrets, while the click wheel may be protected using utility and design patents.

In developing an effective IP portfolio, it is important to consider the business model of the company, the market, and the various features of the product. The IP strategy should be tailored to provide the proper protection of the beneficial features of the product in view of the business model and market. It is important to keep in mind that the features do not need to be technologically complicated to justify spending the resources to obtain the legal protection. Rather, the features should be such that the customers consider them to be valuable. The job of the attorney is to help the client understand how the product can be protected using the various legal mechanisms and assist in crafting the best combination of mechanisms to provide the proper protection.

## **Financial Implication**

There are various financial implications for the IP a client owns, and depending on the client’s business model, the IP portfolio can provide different value. Some clients would like to keep their technological edge and want to keep the competition from developing similar products. Perhaps the best example of such a company is Polaroid. When Kodak attempted to enter the instant photography market, Polaroid sued Kodak for patent infringement. Upon winning the suite, the judge ordered Kodak to pay

Polaroid \$900 million, cease from manufacturing their instant photography cameras, and recall the cameras already sold. Kodak settled with Polaroid for \$600 million, closed the factory, and never entered the instant photography market again. What is even more telling is that no other company dared to enter this market, which gave Polaroid a total monopoly in the U.S. instant photography market. Indeed, it seems that Polaroid's IP portfolio was indispensable to Polaroid's success and directly affected their bottom line.

On the other hand, there are companies that just want freedom to operate. Such companies may opt to follow a “cold war” strategy by collecting patents that pose a threat to the best products of their competitors. In this manner, the company may enable increased freedom to operate, as any inclination of a legal attack by a competitor may be tamed by the potential of a destructive counterattack. The value of the IP portfolio in such situations is harder to quantify.

Other companies may use their IP as a revenue source by licensing the IP to third parties. A business model may be based exclusively or partially on IP licensing. Some companies that set their business model around licensing their IP are IBM, Rambus, and Qualcomm. For such companies, the IP department is an income source and the value of the IP portfolio can be easily quantified according to the licensing revenue collected.

### **Common Mistakes**

A common mistake for younger companies is to apply for patent applications for various ideas developed within the company without consideration for IP strategy or the IP portfolio as a whole. The company then has a collection of unrelated patents that many times has little or no relation to the company's business model. The best value an attorney can bring to a company is to help the business personnel formulate a coherent IP strategy so each patent application supports the IP strategy.

Many mistakes relating to IP result from employees' lack of understanding or lack of sensitivity to IP issues. Many mistakes can be avoided with the proper training of employees. Examples are employees ranting about their ideas to third parties before obtaining proper protection, sending papers for

technical publications, or making presentations at conferences before obtaining proper protection, signing detrimental non-disclosure and/or joint development agreements, and so on.

A more serious mistake often encountered is failure to take the threat of litigation seriously and failure to attempt to discuss the dispute with the opposing party early. This results mainly from emotional reaction to the threat, which displaces rational business thinking. The normal reaction to a threat or actual filing of a lawsuit is denial and anger. The longer management toils in the denial and anger state, the worse the situation becomes. The proper reaction of the legal counsel is to help management overcome the emotions and move to the rational business analysis of the situation. Many times, this can lead to open discussion with the opposing party and to amicable settlement of the dispute.

### **Creating a Portfolio**

An effective IP portfolio may include any combination of elements of the four legal mechanisms of IP protection. Since much of the decision on building the proper IP portfolio depends on the market, the value and importance of each element may differ from one company to another or even from one product to another. For example, if the market is to consumers, then trademarks and design patents may be highly important. On the other hand, if the potential customers are sophisticated corporations, then trademarks and design patents may not be as important. That is, trademarks function to identify the source of the goods, but when the target customer is a sophisticated corporation, the importance of trademarks may not be as high as for consumer products. Similarly, when the target customer is a sophisticated corporation, competitors are not likely to copy the product design or try to pass off their own products.

Geographical considerations are also important and directly affect financial considerations. If the target market of a company is limited to a handful of countries, the IP strategy would be different than if the market were worldwide. One reason is that maintaining registration in a large number of countries can be prohibitively expensive. Under rough calculation, maintaining a single patent for its entire twenty-year term in the United States, Europe, and Asia may surpass \$250,000. Therefore, the total

available budget and future expenses must be considered in deciding on IP protection in the various geographical markets.

To develop a proper portfolio, the IP attorney needs to pay attention to the client's situation and business model. Many times, clients only think in terms of protecting their own products. However, the client needs to be made aware of uses of IP for other than protecting their own products. That is, a patent that covers only the client's own product can be used only as a defensive weapon (i.e., defending the product from copying). On the other hand, a patent that covers future improvement to a competitor's product may potentially be used as an offensive weapon, slowing or preventing the competitor from improving its products.

### **Steps to be Taken in Creating a Portfolio**

Turning to the process of creating an IP portfolio, the first step is to properly understand how the products differ from other existing products (i.e., what are the products' differentiators). This is important in order to understand the scope of protection that is required for the products. During this step, one should make a list of all the features that differentiate the product. After performing a simple search on the Internet and learning about similar products, one effective tool is simply to interview the client about the product. However, one should be sensitive in pointing out to the client any similarities between its products and other products in the market, as clients tend to see themselves as innovative. The idea is not to reduce the merits of their products, but to gently probe them about its features and compare them to similar features in other products to let the client arrive at the proper conclusions.

The second step is to fully understand the existing products the client's new product is going to compete against. This is important in order to forecast what the competitors' reaction to the client's product may be and predict how the competitors may alter their product. To provide the client with an advantage, the IP portfolio should enable the client to slow the progress of competitors' products (i.e., to prevent them from altering them to compete with your client).

The third step is learning about the client's position in the food chain (i.e., understanding the suppliers and customers). When suppliers hold key IP components of the client's product, they can prevent the client from second sourcing and can dictate the price level for the components of the client's products. By knowing the client's customers, one may make better decisions as to the kind of IP protection the customer should pursue. For example, consumer products require higher attention to trademarks, copyrights, and design patents rather than products sold to large corporations. Additionally, companies generally tend to rise up in the food chain as time passes. Therefore, any supplier is a potential future competitor, and the client's IP should provide the client with legal tools to prevent the supplier from encroaching on the client's territory. On the other hand, the IP should provide the client with legal tools to enable it to advance in the food chain, should the client wish to do so in the future. Provided below is a tool, the "food chain foil," enabling investigation of the food chain.

The food chain foil shown in Figure 1 is an example relating to the semiconductor fabrication industry. Historically, chip manufacturers such as IBM, TI, and Intel built their own fabrication equipment, developed the fabrication processes, integrated these processes, and designed the chips themselves. That is, in essence they were vertically integrated with respect to this foil. However, then came equipment companies such as Applied Materials, LAM Research, and Novellus, who changed the food chain by providing fabrication equipment. However, the processes that were used in this fabrication equipment were still developed by the chip companies. Thereafter, in the quest to provide more value to their customers, the equipment companies developed processes to be used in their own equipment. Moreover, some even toiled in process integration to a certain extent. Meanwhile, component manufacturers moved up in the food chain by starting to provide modules, which were assemblies of components.

The fourth step is understanding the geographical market of the client and its competitors. This is important in order to understand the amount of resources required to build and maintain a proper portfolio. It is important to educate the client at the outset about the costs of maintaining a patent portfolio that encompass several countries. This helps the client properly allocate the budget and avoid surprises. Knowing the costs and the

geographical market aids in, for example, deciding whether to file few patents in many countries or many patents in few countries.

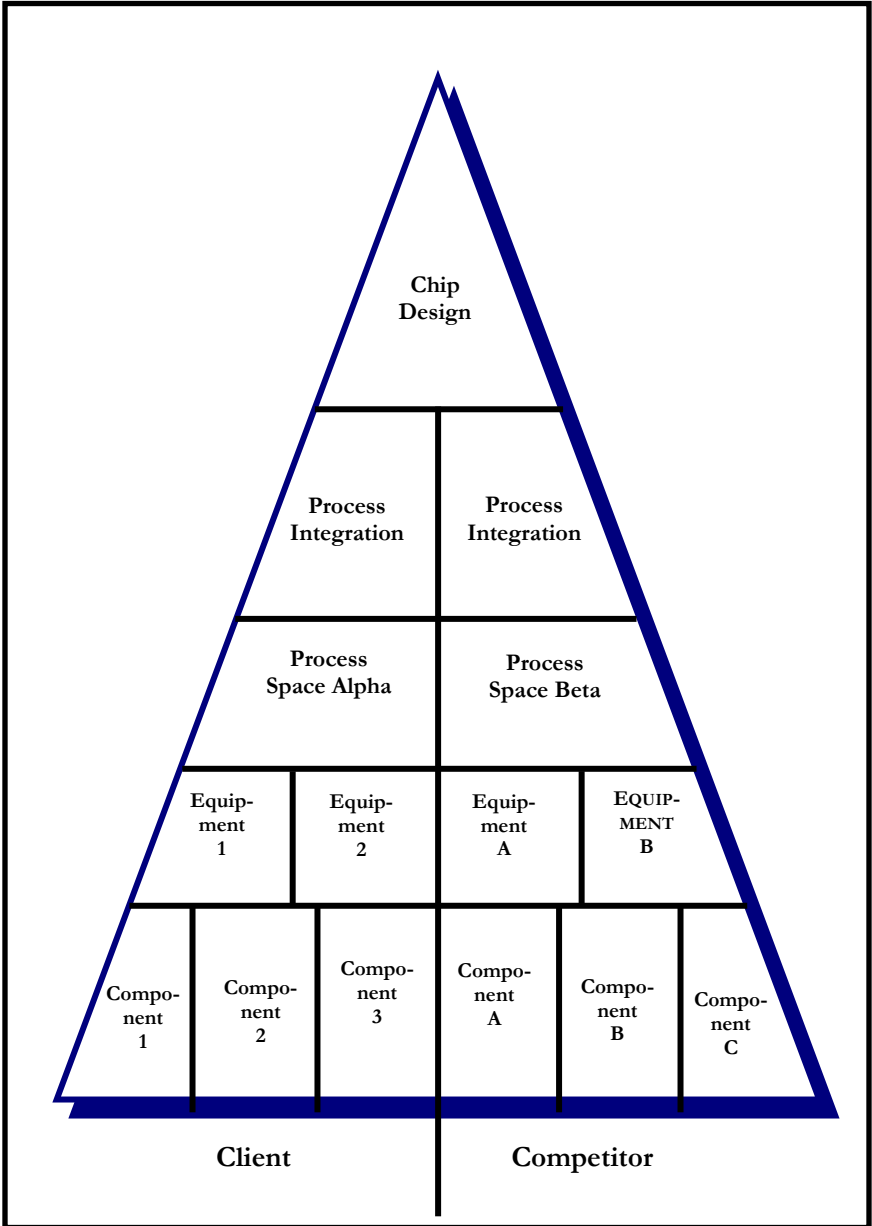


Figure 1: The Food Chain Foil

## Protecting a Product

One question that frequently arises is “How many patents do we need?” While there is no single answer to this question, there are tools that help in understanding the required IP for protection of a specific product. The product differentiators table<sup>1</sup> is a tool that focuses the practitioner on providing IP coverage of important features of the product. A fictitious example of a product differentiators table is provided below. In this fictitious example, the first column lists the differentiating features of the product. These are the features the marketing department is using to highlight the desirability of the product to the target customers. This information can be obtained from the product manager, the marketing department, and so on. Once the column of differentiators is completed, the next step is to understand what technical features enable these differentiators. In this example, the first differentiator is the small size of the product, and it was determined that the new battery technology and the new transceiver design helped reduce the size of the product. For each of the technical features, the corresponding IP used to protect that feature is entered in the third column. This may include issued patents, pending patent applications, trademarks, design patents, and so on. In this manner, one is able to track the progress and ensure that the attractive features of the product are protected.

Differentiator	Feature	IP Coverage
Small size	Battery technology	U.S. 8,888,888 issued 12/111,222 pending ABC Corp. 123 in drafting
	Transceiver	U.S. 9,999,888 issued PCT pending 12/112,112 pending
Ease of operation	Key layout	Design patent D999,999 Software patent 8,333,333

Table 1: Product Differentiators Table

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<sup>1</sup> “Simplifying Patent Portfolio Evaluation by Using Product Differentiators,” *IPC Legal Browser*, Volume 2, Number 1, Spring 1997, p. 7.

## Building a Relationship with the Client

Building a patent portfolio is an evolving process that requires familiarity with many factors. It is best to develop an understanding of the technology and market, and to work with the client on every aspect of the portfolio. Communicating with the client is essential. One tool that is helpful in communication with the client is the “product differentiators foil.” While the food chain foil helps the attorney and client think in terms of vertical considerations, the product differentiators foil helps with the horizontal considerations. A fictitious example<sup>2</sup> is shown in Figure 2.



Figure 2: The Product Differentiators Foil

<sup>2</sup> The author does not represent Nokia, and everything in this example is fictitious.

As can be appreciated, the product differentiators foil is constructed using the same information used to construct the product differentiators table. However, the product differentiators foil provides a better communication tool for reporting and exchanging ideas with management and engineers. That is, by looking at the foil, the client's personnel can easily identify areas of innovation that are not covered by IP protection. Conversely, the client can also easily identify areas that are no longer considered important for IP protection, thereby enabling reduction in resources dedicated to unnecessary IP.

## **Key Players**

For a company deciding on IP strategies, the chief technology officer, chief financial officer, product manager, and marketing manager all play integral roles. The chief technology officer provides the vision for the company's future products. Knowing this vision helps in providing IP that enables freedom of operation in the future. The chief financial officer provides the budget necessary to build the proper portfolio. A chief financial officer needs to understand the value of IP in order to allocate the proper resources. Otherwise, a budget will not be provided to allow for the necessary legal tools, resulting in haphazard procurement of legal services. The product manager helps the team understand the technical features built into the product and how these technical features manifest themselves in making the product desirable to the customers. These are the technical features that enable the differentiators. The marketing manager helps in understanding what product features are used to market the product to the customers, which also helps differentiate the product from competitors.

## **IP Trends**

The biggest change in the area of IP in the past five years is the emergence of China as a manufacturing powerhouse, and soon to be an innovation powerhouse. In the past, China was not a jurisdiction in consideration for patent protection. However, with China having joined the World Trade Organization and with the attention it gives to IP legislation and enforcement, China is now a prime consideration for IP protection of any portfolio. In fact, for some clients China should be

high on the priority list for protection. When the product is of a nature that lends itself to low-cost manufacturing in China, having a Chinese patent may be tantamount to having a world patent. Being able to stop manufacturing in China may mean being able to stop competitors from manufacturing competing products at competitive prices.

It is also possible that India and Russia may develop into strong IP jurisdictions. It is prudent to prepare for that eventuality and seek protection for important features in these jurisdictions. Russia has always had “brain power,” but at present it is not properly utilized to facilitate high-tech industry. India, on the other hand, has a growing high-tech industry, led mainly by Indian expatriates returning from the United States.

## **Conclusion**

A company’s IP strategy should encompass protection of the company’s products differentiators, provision of freedom to operate mechanisms, and procedures for collecting and documenting the company’s collective knowledge. IP is a tool that can be used in various business situations, but it comes at a price. The goal is to obtain the proper tools needed to assist the business using the allocated budget. An important consideration is that businesses change over time and the business model of a company may also change. The IP strategy the company adopts needs to be tailored to the particular business model the company follows at a particular time.

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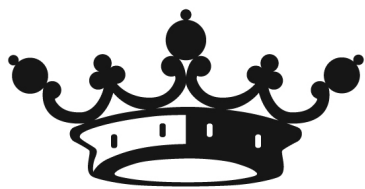
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