

# Intellectual Property & Licensing Law Roundtable

## What Businesses Need to Know

**A**s the legal landscape continues to evolve in terms of intellectual property and licensing law, the Los Angeles Business Journal once again turned to some of the leading IP attorneys and experts in the region to get their assessments regarding the current state of IP legislation, the new rules of copyright protection, licensing and technology, and the various trends that they have been observing, and in some cases, driving.

Here are a series of questions the Business Journal posed to these experts and the unique responses they provided – offering a glimpse into the state of intellectual property law in 2018 – from the perspectives of those in the trenches of our region today.

Thanks to our superb panel for their expert insights, including:



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◆ **What are some of the most meaningful recent changes to the intellectual property law landscape?**

**LEE:** After a long and arduous journey, the Music Modernization Act (MMA) passed the House and the Senate, both unanimously, and was signed into law by the President just a few weeks before the November election. The MMA is designed to reflect the current music industry landscape: according to the 2018 Music Consumer Insight Report, released by the International Federation of the Phonographic Industry (IFPI) in October 2018, 85% of music consumers aged 16 - 64 listen to music through on-demand streaming services like Pandora, Apple Music, and Spotify. Under the MMA, we should see more transparency in tracking copies of music that are streamed and downloaded, and it promises to streamline the process of determining, collecting, and distributing royalties from digital services providers to songwriters and artists. (Currently, songwriters' royalties are determined based off of a law created in 1909.) Under the MMA, songwriters should be better able to negotiate fairly and avoid situations where streaming hits make significant revenue but an absurdly low amount goes to the writers and artists.

**KANG:** Over the past several years, we have seen a significant reduction in the number of patent suits being filed in district courts, due in part to legal changes and conditions that have made it more challenging for patentees to successfully assert patent infringement claims. For example, it has become increasingly more difficult to file patent infringement suits in the Eastern District of Texas (a patentee-friendly venue) without a substantial risk of venue transfer. In addition, there is a greater risk of cost-shifting in cases where the patentee loses the case. Lastly, the party asserting infringement is very likely to be faced with an inter partes review (IPR) petition, which, if instituted, can increase the likelihood of the asserted patent being invalidated by the Patent Trial and Appeal Board (PTAB), increase litigation costs for the patentee, and delay the time to trial if a stay pending IPR is granted. The reduction of patent suits has in turn increased price competition among law firms, making clients and firms rethink traditional billable hour fee arrangements in favor of alternative fee arrangements (AFAs).

◆ **Is there pending new IP legislation coming soon? If so, does this stand to help or hinder existing businesses?**

**SAIVAR:** There is a privacy law storm cloud on the horizon - it's dark and it's descending upon us quickly. Businesses throughout the country need to start preparing themselves now for the California Consumer Privacy Act (CCPA) taking effect in 2020. Many companies are still trying to make sense of and comply with Europe's recent General Data Protection Regulation (GDPR). Unfortunately, I believe the CCPA is going to prove to be a bigger burden on US businesses than the GDPR has been. The GDPR only affects businesses dealing with European citizens; the CCPA can affect any business meeting certain criteria that has California consumers (which, presumably, is any national business). In addition to affecting a broader range of companies, some of the requirements under the CCPA are more burdensome than those in the GDPR while other aspects of the law are vague enough to create uncertainties. California is attempting to position itself as a global leader in protecting the data of its residents. While most people seem to feel that increased data security is a good thing, California is essentially forcing businesses around the U.S. to go from relatively lax laws on data security one day to some of the most comprehensive laws in the world the next. While consumers may benefit from the increased protections of the CCPA, I fear that lawyers may end up being the biggest beneficiaries.

◆ **What are some common copyright issues that small businesses face? How can they best be addressed?**

**LEE:** First, know whether what you have created is copyright-protectable and set aside a budget for registering them as early as you can so you can take advantage of statutory damages and recover attorney fees, which are available when the work is registered prior to infringement or within three months of its first publication. Also, make sure you own the copyright in the works that are created for you. Also, just because you paid for the creation of a work, whether it be a painting, literature, a photograph, a webpage, software code, that doesn't mean you own the copyright. Often, it is the creator who holds the copyright. So, consider having a copyright assignment, with what is called "work made

for hire" language signed. Second, before posting or using others' works, consult with copyright attorneys. There are some common errors concerning fair use. Changing someone else's work "enough" or adding new material to it does not necessarily make it fair use. Giving credit to the author or stating a disclaimer does not make your use of someone else's work fair, nor does using it for non-profit or entertainment purposes.

**SAIVAR:** In today's world, consumer-facing businesses are rightly concerned with consumer engagement and are therefore feeling pressure to consistently generate content for their websites and social media accounts, even if their core business has nothing to do with content. Often, the people in charge of generating that content are young and grew up thinking that if they can find it online, they can use it or share it without needing a license. This is especially problematic now because technology has made it much easier to find unlicensed uses of imagery online; in fact, there's now a cottage industry of law firms that represent photographers or other owners of copyrighted images that send auto-generated demand letters seeking license fees for such uses. Some simply file lawsuits without even contacting the infringers in the hopes of pressuring the other side into a quick settlement. It's important for businesses to train their employees (especially the younger ones) that they should never download, copy and paste or otherwise save and upload images they've found in Google image searches or on third party platforms. If they ignore that advice, the business is likely to receive a demand that may have to be heeded.

◆ **We continue to hear stories about massive corporate data breaches; what exposure do local businesses face from data breaches?**

**COSTANZO:** Cyber-attacks have reasons to target virtually all types of companies, whether it is to gain information or simply to extort money. The public does not hear about most such attacks, since only the largest incidents are covered. Also, many companies fail to disclose these incidents in an effort to conceal their vulnerabilities. However, there are severe civil and criminal penalties for failure to report a hack to the appropriate regulators. When personal identifying information is stolen the

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law requires immediate notification to impacted individuals. Companies may also be required to provide credit monitoring services, compensation for any damages, and a security freeze on the consumer's credit report. The government may impose penalties, including restitution, following an attack if the business has not taken the proper precautions to train employees and encrypt customer information. Disruption to operations may also cause a huge financial impact on a business, and the impact on smaller businesses is disproportionately higher. Cyber and privacy policies are available to cover a business' liability for a data breach in which customers' personal information, such as Social Security or credit card numbers, is exposed or stolen by a hacker or other criminal who has gained access to the firm's electronic network.

**SAIVAR:** At this point, almost every business, big or small, needs to worry about data security. While the enormous corporate data breaches make the headlines, smaller businesses should realize that breaches are a daily occurrence with businesses of every size. While these smaller breaches may not lead to claims by the state, they can still be costly because of the steps the business needs to take to comply with the law. California has very specific procedures any business must follow in the event of a breach; we usually recommend that the moment a breach is discovered, the business engage the services of an attorney or consultant to walk them through the process. At the end of the day, the most important takeaway is that every business that collects information from its customers should have a data breach plan in place beforehand so that they don't lose valuable time trying to figure one out after a breach.

#### ◆ What are the most important steps businesses in Los Angeles can/should take before, during and after a data breach incident?

**COSTANZO:** Many companies have instituted training programs designed to assist employees in identifying nefarious e-mails. For example, businesses will send fake phishing e-mails to their own employees using the same tricks employed by criminals to see if the employees respond. A good IT department will institute safety measures, such as blocking unknown executable files, automatically installing software updates and security patches on all computers, and restricting administrative privileges. During a data breach, the company should do what it can to stop the attack, or at least minimize its impact. An emergency checklist should exist so that someone knows how to contact the head of IT and other executives when they are away from the office. Following a data breach, the business should use a pre-existing plan that it has devised detailing the company personnel that must be contacted as soon as the breach occurs, such as software engineers who can immediately tackle the problem, PR personnel to formulate an announcement, lawyers to deal with questions from regulatory agencies, etc.

**SAIVAR:** I think the most important steps are those taken before a data breach occurs. First, any company dealing in data should consider obtaining cybersecurity insurance, which will kick in if a breach occurs. Next, while every company may not have the money for a full data security audit, companies should, at the very least, have a qualified IT professional review their technology and internal setup to ensure that there aren't obvious vulnerabilities that can easily be fixed (such as failing to implement available software upgrades or patches). In addition, companies should understand that the biggest risks often stem from third party service providers who touch a company's data; therefore, it is important to require any third-party software or service providers to implement commercially reasonable data security practices. Finally, every company should have a plan in place for how to react to a data breach. They should understand the general steps and, importantly, have the contact information of an attorney or consultant (or insurance provider) whom they can call immediately if they learn of a breach. The earlier and quicker a company reacts to a breach, the easier it can be to deal with.

#### ◆ Do the management or boards of businesses that suffer data breaches face liability from shareholders?

**COSTANZO:** There are several situations that lead to liability in the event of a data breach. First, the shareholders can bring a derivative claim against management or the board for breach of fiduciary duty in failing to properly discharge their duty to protect the company's information. In a landmark 1996 decision, *In re Caremark International Inc. Derivative Litigation*, the Delaware Chancery Court held that "a director's obligation includes a duty to attempt in good faith to assure that a corporate information and reporting system, which the board concludes is adequate, exists, and that failure to do so under some circumstances, may, in theory at least, render a director

liable for losses caused by non-compliance with applicable legal standards." Second, we have seen situations where executives sell shares in the company after a data breach occurs, but before it is announced. This can result in insider trading liability with criminal penalties, as well as derivative claims by shareholders alleging breach of fiduciary duty.

#### ◆ What are some of the most common mistakes that businesses make when it comes to intellectual property?

**LEE:** It depends on the nature of the business and its size. For a small startup, it is important to strike a balance between adequately addressing IP issues while not over-allocating its finite resources. Your legal budget should be focused on partnership, employment, and industry-specific regulatory law over IP, but with a few exceptions: (1) before adopting a name, do a Google and Trademark Office search and then secure a URL and social media handles; (2) if you are a tech company and have something you plan to protect through patent, consult counsel immediately and don't disclose it to others; (3) do not copy someone else's work; if you think it's close, consult copyright counsel; and (4) have IP counsel review licenses before signing. The opposite problem is present with many businesses once they reach a larger size. This is in large part because outside of IP-intensive industries (e.g., tech and fashion), initial legal expertise tends to be on issues other than IP. At this stage, engage an in-house (or more likely) part-time outside counsel with IP expertise. A mistake companies make is waiting too long to think about IP.

**SAIVAR:** Too many businesses, especially in the startup space, become wedded to new trademarks without first consulting with an attorney to ensure the new marks do not come with potential issues. I often see startups choose descriptive trademarks. Under U.S. trademark law, a brand name that describes the goods or services being offered by that business cannot be registered or protected (absent special circumstances). A startup may want a brand name that immediately conveys to consumers what the startup does; however, they may end up with a brand that's not registrable or enforceable because of its descriptiveness. Another issue is that the new brand may infringe upon a third party's rights or at least be so similar to a pre-existing registered mark that registration will be unattainable. None of this is a big issue if these issues are spotted early on. They become an issue when a company has already put money behind the brand, incorporated it into its pitch materials or released the product under that name. It can be embarrassing, difficult and costly to change the brand at that point. If those factors cause the company to keep the problematic brand, it may end up with a brand that's infringing or unenforceable which can hurt valuation. For these reasons, it's best to make sure the brand is clear to use before it is adopted in any meaningful way.

**KANG:** When it comes to intellectual property, one of the most common mistakes that businesses make is the failure to successfully maximize the value of their intellectual property assets. For example, with respect to patents, many companies apply for and obtain issued patents, but let them lapse and expire without ever licensing them or asserting them against infringers to obtain licensing revenues. The situation is analogous to never cashing a winning lottery ticket. The situation can be avoided by hiring competent counsel to assess the client's patent portfolio and other IP assets, identifying the most valuable patents and other IP (i.e., those being used by others), and formulating and implementing a strategy to monetize such IP assets, whether through licensing, sale or transfer, or litigation.

**COSTANZO:** Many businesses fail to install proper safeguards to ensure that their trade secrets are not vulnerable to theft. Since trade secrets are not registered with a public entity, ensuring their secrecy is the responsibility of the owner. Many companies understand that it is important to conceal trade secrets from the outside world. But, it is also important to make sure that one's own employees have access only when there is a need to know. Many companies fail to take such precautions. In situations where a company is accused of misappropriating trade secrets it is important to show independent development. This is another area where many businesses are lacking. Documentation should be created to show one's own efforts to develop new technologies.

#### ◆ In this day and age, what are the benefits of US trademark registration? What should and shouldn't be trademarked?

**LEE:** Whether you are offering or buying consumer goods, these days you can't ignore online retail stores like Amazon. Recently, Amazon has been actively urging brand owners to enroll their

brands in what is called "Amazon Brand Registry." As part of the enrollment, Amazon sends a verification code to validate the identity of the individual seeking to enroll the brand with the Registry. When the brand owner applies to register its brand, the first thing Amazon does is check the United States Trademark Office database to ensure the mark is registered. If so, it pulls the email address listed for the registered mark and emails a code to that address. Thus, without a registration, brand owners cannot take advantage of the benefits that Amazon Registry provides. Similarly, trademark registrations have become more important in securing and/or reclaiming hijacked domain names and social media handles. For example, to report a counterfeit or misuse of a mark on Facebook, you are asked to provide the mark, the registration number, and a scanned copy of the registration certificate(s). Finally, if you are planning to raise capital, whether through angel investors or venture capitalists, one of the first things they will ask for is your IP portfolio, including your trademark registrations. You may have used a mark for years, thereby accruing common law rights and goodwill. But, if you don't have a piece of paper from the United States Trademark Office certifying that the mark is registered, it could discourage investment and lower your value to investors.

**SAIVAR:** Trademark registrations are intended to give their owners certain advantages should they ever choose to litigate a trademark infringement claim. The fact of the matter is, however, that while there are countless companies that own trademark registrations, only the smallest sliver of those companies ever choose to file suit. This is due to the fact that it is so difficult to be awarded damages even when successful; usually, the highlight is simply putting a stop to the infringing use, which may not justify the extreme expense of litigation. Even for those companies that may choose to litigate, a trademark registration isn't necessarily required because, under U.S. law, brand owners may have sufficient rights to sue for infringements of their unregistered "common law" trademark rights. That being said, trademark registrations still provide three important benefits. First, most companies going through a sale or investment transaction are going to be expected to own registrations for their main brand(s). These registrations will be seen as assets and the lack thereof could be seen as a red flag by a potential buyer or investor. Second, cease and desist letters are usually taken more seriously by their recipients when an actual registration is cited; the uninformed may not be intimidated by common law rights. Finally, having a trademark registration can make going through the takedown procedures of major websites that are home to infringing products (e.g., Amazon, eBay, Etsy, etc.) much easier. Therefore, while the intended benefits of trademark registrations are rarely enjoyed by their owners, there are still very practical benefits that justify the relatively low cost of obtaining a trademark registration.

#### ◆ What are some aspects of non-compete agreements that businesses may not be aware of?

**SAIVAR:** Businesses should understand that the vast majority of non-compete agreements directed at individuals are unenforceable under California law. The state frowns upon any contract term that seeks to impair a person's ability to make a living. CA Business and Professions Code § 16600 provides that "every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." There are certain narrow exceptions, however, that allow for non-competes involving a person who is selling his or her business or a substantial portion of it. In that case, it is seen as fair for the purchaser to restrict competition by the very person who was just compensated for selling his or her business and the goodwill associated with it. However, this doesn't apply to most situations when a company is trying to prohibit their ex-employees from working for a competitor. In those situations, the best a company can do is to remind both the employee and his or her new employer that the employee is prohibited from using or sharing the former employer's IP, confidential information, and/or trade secrets with the new company.

**COSTANZO:** A business can prohibit former employees from using trade secrets to compete. However, many businesses want to go beyond that and use non-competes in an effort to stop employees from going to competitors even when it is not necessary to protect trade secrets. These arrangements continue to be popular in California, despite the fact that most such agreements are not enforceable. In fact, an employer may be held liable for disciplining an employee who refuses to sign a non-compete. Many businesses are not aware of these pitfalls. An employer cannot enforce a non-compete agreement against an employee who leaves the company unless the non-compete was signed in connection with that employee's sale of his or her ownership share in a business and the non-compete is reasonably tailored.

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For example, an enforceable non-compete would restrict the employee from competing in a reasonably defined geographic area for a reasonable number of years. This restriction is not common in other jurisdictions, some of which even presume that an employee will use previously acquired proprietary information at a competing business.

**LEE:** It varies from state to state. In California, it's safe to assume that non-compete agreements are void and unenforceable, even if their terms would be considered "reasonable" and thus enforceable in other states. Under Section 16600 of the California Business and Professions Code, void are agreements "by which anyone is restrained from engaging in a lawful profession, trade or business of any kind." However, this does not mean there are no limits on competition. California allows three exceptions to this strict prohibition: the seller of a business, a former business partner, or a former LLC member may be refrained from carrying on a similar business within a specified geographic area. Often issues surrounding non-compete agreements stem from employer-employee relationships to which none of these exceptions apply. So, don't waste time negotiating and crafting non-compete agreements in California. Instead, employers in California should focus on imposing stricter confidentiality obligations on employees and restricting their use of company trade secrets.

◆ **What are some areas that need to be addressed in a future legislative revision of the Copyright Act?**

**SAIVAR:** Unfortunately, the Copyright Act in its current form incentivizes lawsuits over the most minor of infringements. Under the Act, the owner of a copyright registration is entitled to certain statutory damages and attorneys' fees if it successfully litigates a copyright claim against an infringer. Therefore, even if the infringement was not willful and actual damages are in the hundreds of dollars or less, a copyright owner may be entitled to damages in the tens of thousands of dollars, at least, plus attorneys' fees that can be astronomical. This has led to the proliferation of attorneys who've gained notoriety for filing lawsuits over minor infractions (especially when it comes to the use of photographs). Some of these attorneys

have automated e-mails with "click to settle" buttons. Others don't even bother to send a demand letter or attempt to settle. They simply file suit. The true value of a license of the work at issue may have been \$25 and the infringing party may have been willing to settle in the thousands of dollars had the other attorney first reached out. But the company finds itself in court having to consider settling for tens of thousands of dollars because the work at issue was registered and therefore there is real exposure. To be clear, I think it's important for copyright owners to maintain their ability to discourage infringements and to enforce and monetize their works, but for the countless run-of-the-mill, non-willful infringements that take place every day online, we need to stop incentivizing the filing of lawsuits. I believe we need to establish something akin to a copyright small claims court that could allow copyright owners to receive damages if their works are infringed, but at reasonable figures that don't encourage contingency fee lawyers to sue. This would allow "innocent" infringers to avoid being penalized in the five figures for a two-figure infraction while not tying up valuable court time for minor issues.

◆ **What advice would you give to an early stage technology company with respect to protecting its intellectual property assets?**

**LEE:** a) Document and keep clear records of your creation process. Determining inventorship and ownership in intellectual property can get tricky and costly. If you are coming up with new ideas while working for someone else, make sure to separate your day job from your future job. That includes using a different email address and a different computer and working only at off-hours. Make sure the company owns the rights in the inventions created by employees. Have employees sign invention-assignment and confidentiality agreements early by including them in the initial employment agreement. b) All inventions should be assessed for patentability and on sale bar issues ASAP. The deadlines on these are tight. For tech companies, mistakes made and corners cut early on can cause a loss of exclusivity and market share down the road. c) Diversify your IP portfolio. Utility patents are great, but are not the only way to protect your intellectual property. Evaluate

the company core assets and consider protecting them through design patents, copyright, trade secrets, and trademarks. To the extent there are trade secrets, adopt and implement clear visible policies and protocols to demonstrate they are in fact protected as trade secrets. d) Don't overlook international protection. Consult patent counsel early on. e) Litigation is inherently unpredictable and sucks up your time and money. It should be a last resort. Even then, engage in litigation only if it will bear significant benefits to the company.

**KANG:** My advice would depend upon the nature of the intellectual property assets the company has, wants to develop, and/or seeks to protect. For instance, if the company's most valuable intellectual property is a trade secret formula not known to others, not easily reverse-engineered, and potentially useful and valuable for over 20 years, the company may be better off keeping that formula a trade secret rather than seeking to obtain a patent covering that formula. By contrast, if the company's most valuable intellectual property consists of a particular apparatus, a method of manufacturing that apparatus, and/or related software, which can readily be reverse-engineered by acquiring and doing a teardown analysis of the company's product, then obtaining patent, trademark, and/or copyright protection may be the preferred strategic choice. In either case, the company should take careful steps to ensure that it has appropriate safeguards in place to maintain the secrecy of any trade secrets it may have (such as confidentiality and non-disclosure agreements) and to regularly monitor for potential patent, trademark, and/or copyright infringement by others.

**SAIVAR:** First and foremost, make sure any person who helps you develop your tech signs a work-for-hire agreement or assignment granting you all intellectual property rights. Young companies often think that if they pay their developers, they own their work; that's not the case without an agreement saying as much. I can't tell you how many times I've had young companies come to me about a dispute with a developer who created a core piece of their tech without an agreement in place. They're now fighting over fees or services and the client has little to no leverage because they desperately need the developer to sign something assigning them rights in their code. It's even worse

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when this issue comes up in the middle of a round of investment and that one document can mean the difference between closing the round or losing it. Second, I try to advise startups not to stress too much about seeking IP registrations at an early stage. They should focus on protecting their concept by not sharing it with others until they absolutely have to; and, then, they should only share it after requiring the recipient to sign an NDA. They shouldn't worry about registering the logos or various slogans. They shouldn't worry about getting copyright registrations for the code or designs. They usually shouldn't worry about patents at an early stage. When a company is on a limited budget, their best protection is usually being first to market with a solid product. Getting caught up in the time, energy and expense of looking into and pursuing various IP registrations takes away from that. Moreover, registrations obtained at an early stage often end up being useless given how often young tech companies pivot as they learn and grow.

**COSTANZO:** Early stage companies usually spend most of their time raising money, developing products, and dealing with personnel. Efforts to protect intellectual property may suffer in favor of these other tasks. However, investors will be very interested in efforts made to protect intellectual property, such as patent, trademark, and copyright registrations. These intellectual assets will often comprise the only asset that the company owns and any preliminary analysis conducted by a potential investor will involve a close look at registrations. Therefore, it is very helpful to have registered IP with the appropriate agency. In situations where registration is either not available or there is insufficient time to register, care must be taken to use appropriate nondisclosure agreements and to restrict access only to those employees and partners with an actual need to know such information.

◆ Do most businesses need international protection on IP and licensing issues?

**KANG:** The advice here would depend upon whether the company has manufacturing facilities, operations, sales, and/or other business interests in countries outside of the U.S. For example, if the company manufactures products covered by U.S. patents that are sold in Asia and would like to prevent

competitors in Asia from copying the company's patented products, it would be critical for the company to obtain patents in the Asian countries in which it seeks patent protection. Likewise, if the company actually manufactures products in Asia, has U.S. patents covering the method of manufacturing, and wants to prevent competitors in Asia from using the company's patented method of manufacturing, it would be important to obtain a patent in the Asian country of manufacture to exclude others from using the invention in that country.

**LEE:** With a few exceptions, all my clients express a need for international protection on IP in one way or another. When mapping out and strategizing company growth, we often focus on a number of SKUs or employees we need to hire. Include in that discussion (i) the countries in which you manufacture now and may manufacture in the future, (ii) the countries you sell now and may sell in the future, and (iii) the countries from which you are receiving inquiries about potential partnership, distributorship, or any other business opportunities. Create a list of them and get a realistic budget from your IP counsel for obtaining patent protection, trademark registrations, and any other relevant IP protection. While we often hear complaints about how difficult it is to enforce IP rights outside the United States, you won't have any rights to enforce if you don't apply to secure IP rights early.

◆ Are there any unique considerations for Asian or Asia-based clients litigating a patent or other intellectual property case in the United States?

**KANG:** Although things have improved in recent years, there is still the risk of anti-Asian or anti-foreigner sentiment to affect a judge or jury's perception, particularly in certain U.S. jurisdictions. To mitigate the risk of such bias, Asian or Asia-based clients can: (1) present themselves as global, non-foreign companies with significant investments and interests in the U.S.; (2) choose a likeable "face of the company" witness, who is Americanized and/or presents well in English; and (3) choose outside counsel who is well-respected by the presiding judge and the community, and who can help establish party credibility early in the case. In addition, representing Asian clients in

patent or other IP cases in the U.S. often requires educating the client regarding U.S. discovery rules and litigation procedures, which differ significantly from such rules and procedures in most Asian countries. For example, U.S.-style depositions are generally not permitted in litigation in Korea, and document discovery is much more limited in scope. Accordingly, retaining counsel intricately familiar with both U.S. and Asian cultures can have a significant impact on the direction of a case.

◆ What criteria should be used in deciding what inventions to patent?

**KANG:** The advice here depends upon the development stage and objectives of the company. Patents and patent applications can have value to a company for various reasons. For certain companies, patents may be valuable to show the market that the company possesses key proprietary technology. Such companies may want to pursue inventions that have the most market appeal. For other companies, a patent may have greater value for the exclusivity of use the patent grants. Such companies may want to pursue patents on inventions that others might copy quickly in the absence of a patent. Still, for others, patents may have value as a defensive weapon in the case of a patent infringement suit by others. In such a case, the company may want to pursue inventions that competitors are likely to use even if the company itself is not practicing the invention. Lastly, for certain companies, patents may be valuable as an offensive weapon to derive licensing revenue as part of a monetization campaign. Such companies may favor patents with the most direct read on the accused infringers' products.

◆ What are the most important considerations in whether a company should seek to monetize its patents – and what steps can a company take to position itself most advantageously if it ever decides to monetize its patents?

**KANG:** The decision to monetize patents will primarily be driven by whether the return on investment makes economic sense. The company should first consider whether it would be better to sell or transfer the patents versus directly pursuing

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## INTELLECTUAL PROPERTY &amp; LICENSING LAW ROUNDTABLE

licensing. Selling or transferring may provide guaranteed early returns, but the upside may be much lower than if licensing is pursued directly. Assuming licensing is pursued directly, the company should consider the anticipated cost to: (1) conduct teardown and/or other infringement analysis; (2) engage a firm to pursue licensing efforts; and (3) to file a lawsuit and pursue litigation if licensing efforts fail. The company should weigh these costs and the timing of such costs against other economic considerations, such as: (1) the anticipated licensing revenues from the target(s); (2) potential market reactions to the suit; (3) implications for obtaining licensing revenues from other potential targets; (4) whether the patents would expire soon with no licensing revenue in the absence of monetization; (5) whether the target is likely to settle early; and (6) whether the target may assert counterclaims of infringement. There are numerous steps a company can take to position itself most advantageously if it ever decides to monetize its patents. I'll list just a few of them. First, at the patent prosecution stage, companies can seek to: (1) obtain broad patents that will likely read on future products or services of major companies with significant sales; (2) include method claims that may allow the company to obtain pre-suit damages without having to comply with the marking requirements of the Patent Statute; and (3) include system claims reading on the entire accused product, thereby potentially increasing the applicable royalty base. Second, if done properly, prior dealings with and/or prior notice of infringement to the potential target may help expand the damages period by including pre-suit damages and/or increase the potential for a willful infringement finding and resulting enhanced damages. Third, it would benefit the company to have related patent applications (e.g., continuations) still pending before the PTO, as those may give the company an opportunity to obtain patents that read even more directly on the accused products.

◆ **Are there any hurdles to consider (pertaining to intellectual property) when one company acquires another?**

**COSTANZO:** The due diligence process that precedes the acqui-

sition should include substantial efforts designed to ensure that the target company owns the rights to all of its intellectual property. A company may have a well-known product line but may not actually have strong rights to the underlying technology, trade dress, or trademarks. It is very important that the acquiring company look into all patent registrations to ensure that the patents are owned in the name of the target. Research should be done with regard to trade dress to ensure that it has been developed and used by the target. Likewise, trademark rights must be evaluated to make sure that there are no competitors out there who used the mark first and/or have superior rights to it.

◆ **Do patent trolls still present a risk to traditional businesses, and what is happening that may affect the future of trolls?**

**KANG:** Over the past several years, we have seen a significant drop off in the number of district court patent cases being filed by non-practicing entities (NPE's, sometimes referred to as "trolls"). Nevertheless, although the risks of NPE litigation have diminished due to recent legal changes and conditions, NPE litigation still presents a formidable risk to traditional businesses. For example, just in June of this year, Samsung, Qualcomm, and GlobalFoundries were hit with a \$400 million jury award in an Eastern District of Texas patent case filed by an NPE, KAIST IP US LLC, the intellectual property arm of the Korea Advanced Institute of Science and Technology (KAIST). In that case, the PTAB declined to institute the defendants' multiple petitions for IPR, leaving the defendants subject to the jury trial in the Eastern District of Texas, which resulted in the significant damages award.

◆ **What should a business look for when selecting a law firm to represent their IP or licensing interests?**

**SAIVAR:** I think it's critical to engage an IP attorney who is business-minded. It is easy for IP attorneys to be too narrowly focused on only the IP issues while ignoring the bigger picture. The problem is that when it comes to IP, you can always do more. For example, a company can seek to register every brand name, logo and slogan used in connection with a wide variety of

goods and services. It can then seek foreign registrations as well. If you look at this only from an IP perspective, this could make sense. Is it better to have more protection than less? Of course. However, the benefits may only be minor whereas the costs can add up very quickly. An IP attorney should have the confidence to talk their client out of spending money that could better be used in the business. This is especially important for early stage companies who have limited budgets. I'd rather have an early stage client spend money on its product instead of building a wide-ranging IP portfolio; all the IP protection in the world does nothing if the product never takes off.

**KANG:** I would include at least the following considerations: (1) the strategic insights and ability to take the company's business objectives into consideration in developing the best IP strategy to protect and achieve those objectives; (2) a relationship partner or point of contact, who is responsive, timely, and accountable for meeting deadlines, providing key updates regarding strategy and case developments, and staying within the fee arrangement and managing overall costs; (3) team members with the requisite IP litigation, licensing, and technical expertise and experience; (4) the team members' reputation among judges and counsel within the venue in which the case is pending; and (5) the reasonableness of the budget, fee cap, or other alternative fee arrangement (AFA) and the team's record of honoring prior budgets, fee caps, or other AFAs.

**COSTANZO:** The most important thing is to find a lawyer who understands and cares about the business, its people, and its objectives. The law firm should also have attorneys who understand the technology that the company owns. It is not necessary that a lawyer have a technical degree to represent an electronics manufacturer. But, the lawyer should have a sufficient understanding of the technology and its relationship to applicable laws. If the company owns, or wishes to own, patents, then it will be necessary to retain qualified patent prosecution lawyers. If the business is an early stage company, the nature of its legal needs will be broad. It may need patent prosecution counsel, licensing lawyers, litigation counsel, etc. Accordingly, a firm with these areas of practice would be helpful.

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