PIERCE LAW
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GLOBALIZATION OF R&D
IP MANAGEMENT POLICIES & STRATEGIES

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I. INTRODUCTION

Live in "Golden Age" for IPRs
Patent filings and issuances are skyrocketing
Talk of patent "revolution," "explosion," "frenzy"

"Anything under the sun that is made by man" is patentable
Courts, Congress, Justice Department — pro IPRs
Corporations built on patented technologies
Motto: Innovate or perish

Value of IPRs for securing exclusivity — simply invaluable
Royalties for licensing IPRs in 2002: $150 billion
Over $1 billion for some companies
Universities jumped on bandwagon

II. THE GLOBAL LANDSCAPE

A. Favorable Developments & Trends Abroad

India — a seachange — total about-face

- IP taught in all schools
- "Patent or Perish" (Chamber of Commerce)
- "IP literacy," "IP awareness" — buzzwords
- "Bring IP down to people"

Change in philosophy:

Indonesia, Canada, "south of the border"

Substantial revisions of IP systems — pre- and post-TRIPs

THE GLOBAL LANDSCAPE (cont'd)

B. Antipathy, hostility still persists in many countries

"Spreading the gospel" in developing countries:

- Conveying my Credos-Insights-Truisms
- Fending off critical comments and testy questions
- Urging a six-phase course of action for implementing effective IP systems

III. INTERNATIONAL HARMONIZATION

Steady advance of harmonization of IP systems

Increasing discussion and growing literature on global, universal or world patent

Stepping stones:
extant and pending international and regional treaties:

- Paris Convention
- PCT
- TRIPs
- Patent Law Treaties
- EPC
- OAPI/ARIPO
- EAPC
- NAFTA

"World Patent":

Ongoing initiatives: Kyoto Action Plan
Focus on Europe, Japan, USA — >90% of patent activity
Major harmonized features
Other possible vehicles: PCT, EPO
Mossinghoff: will come "sooner rather than later"

IV. INTEGRATION OF IPRS

Prof. Dratler (1991):

- IPRs are now a "seamless web"
- Single field of law with much overlap
- Several IPRs available for same IP or different aspects of same IP
- Not taking advantage of overlap — malpractice

One IP category — center of gravity
Others are supplementary but very valuable to

- cover additional subject matter
- strengthen exclusivity
- invoke additional remedies in litigation
- standup if primary IPR becomes invalid

and thus provide synergy and optimize legal protection

Most important management strategy: exploiting the overlap between patents and trade secrets

IP INTEGRATION CONCEPTS

EXPLOIT THE OVERLAP

DEVELOP A FALL BACK POSITION

CREATE A WEB OF RIGHTS

BUILD AN IP ESTATE

BUILD A WALL

BUILD A RINGFENCE (India)

OVERPROTECT

LAY A MINEFIELD

for

SYNERGISTIC EFFECT

via

DUAL OR MULTIPLE PROTECTION

V. THE ROLE & VALUE OF TRADE SECRETS

Trade secrets are the "crown jewels" of corporations — not the "cesspool of the patent system."

Mark Halligan and James Pooley proclamations.

Trade secret misappropriation cost Walt Disney $240 million and Cargill $300 million.

88% of responses in an IPO Survey indicate trade secrets to be the really important intellectual assets because patents have limits: patentability requirements, publication, invent-around feasibility

THE ROLE & VALUE OF TRADE SECRETS (cont'd)

Trade secret protection operates without delay and undue cost against the world — unlike Patents which are territorial and so expensive to obtain and maintain that only very selective foreign filing is done.

Patents are tips of icebergs in an ocean of trade secrets

- Trade secrets cover over 90% of new technology
- Over 80% of technology licenses cover trade secrets or are hybrid licenses

PATENT/TRADE SECRET INTERFACE

As a practical matter, licenses under patents without access to associated, collateral know-how are often not enough, because patents rarely disclose the ultimate scaled-up commercial embodiments of products and processes.

"In many cases, particularly in chemical technology, the know-how is the most important part of a technology transfer agreement." (Homer Blair)

"It is common practice in industry to seek and obtain patents on that part of a technology that is amenable to patent protection, while maintaining related technological data and other information in confidence. Some regard a patent as little more than an advertisement for the sale of accompanying know-how." (Peter Rosenberg).

PATENT/TRADE SECRET INTERFACE (cont'd)

In technology licensing "(r)elated patent rights generally are mentioned late in the discussion and are perceived to have 'insignificant' value relative to the know-how." (Michael Ward, Honeywell VP Licensing)

"Trade secrets are a component of almost every technology license…(and) can increase the value of a license up to 3 to 10 times the value of the deal if no trade secrets are involved." (Melvin Jager).

Failed Brazilian tactic.

CIBA-GEIGY examples: Eastman Kodak & DuPont licenses.

PATENT/TRADE SECRET COMPLEMENTARINESS

- Supreme Court (*Kewanee Oil*, 1974): perfectly viable alternatives

- Not mutually exclusive but mutually reinforcing — dovetail, in harmony

- Inextricably intertwined: Most R&D data and collateral know-how cannot and need not be included in patent applications — grist for trade secrets.

- Tom Arnold: it's "flat wrong" to assume that "because the patent law requires a best mode requirement, patents necessarily disclose or preempt all the trade secrets that are useful in the practice of the invention."

PATENT/TRADE SECRET COMPLEMENTARINESS (cont'd)

1. In the critical R&D state and before any patents issue, trade secret law "dovetails" with patent law.

2. Assuming that a development has been enabled and the best mode described, all collateral know-how not disclosed, whether or not inventive, can be retained as a trade secret.

3. All R&D data, including data pertaining to better modes, developed after filing, again whether or not inventive, can also be protected as trade secrets.

4. With respect to technologically complex developments consisting of many patentable inventions and volumes of associated know-how, complementary patenting and secreting is tantamount to having the best of both worlds.
   E.g. GE's industrial diamond technology
   Wyeth's Premarin Process.

The question then is not whether to patent or to padlock but rather what to patent and what to keep a trade secret.

The upshot: the best policy is to patent as well as to padlock.

PATENT/TRADE SECRET COMPLEMENTARINESS (cont'd)

The "*best mode*" requirement applies
— only to the knowledge of the inventor,
— only at the time of filing and
— only to the claimed invention.

Hence best mode requirement is no impediment, because —

1. Patent applications are filed early in the R&D stage to get the earliest possible filing or priority date.

2. The specification normally describes in but a few pages only rudimentary lab experiments or prototypes.

3. The best mode for commercial manufacture and use remains to be developed later.

4. Patent claims tend to be narrow for distance from the prior art.

5. As shown by case law, manufacturing process details are, even if available, not a part of the statutorily-required best mode disclosure of a patent.

EXEMPLARY TRADE SECRET CASES

1. GE's exclusive industrial diamond process technology
   - Holds patents (some expired) and trade secrets
   - Refused to grant licenses
   - Fast-track GE scientists stole trade secrets for Far Eastern interests for million dollar payments
   - In the end got caught, tried, jailed

2. Wyeth's exclusive Premarin manufacturing process
   - Has market exclusivity since 1942
   - Patents expired decades ago
   - Closely guards its trade secrets
   - Natural Biologies stole these trade secrets
   - Wyeth sued, got sweeping injunction

EXEMPLARY TRADE SECRET CASES (cont'd)

3. Pizza Hut case
   - Pizza Hut supplier, C&F Packing, invented and patented manufacturing process for pizza sausage toppings and kept improvements secret
   - Pizza Hut misappropriated trade secrets and got sued
   - Court decision:
     1) patents are invalid on on-sale bar grounds
     2) trade secrets are enforceable and Pizza Hut had to pay $10.9 million

Above cases show the merits of marrying patents and trade secrets to secure invulnerable exclusivity — "can have the cake and eat it."

Developments and Trends

- Companies that didn't used to license at all, now do it (CIBA-GEIGY, DuPont, IBM, Westinghouse)
- NIH no longer a factor
- Royalties are going through the roof
- Option Agreements are on the increase
- Other *quid pro quos* are preferred, e.g. cross licenses for products
- Non-core and dormant IP portfolios are licensed for profit

TECHNOLOGY LICENSING DOS AND DON'TS (cont'd)

Developments and Trends

- Other arrangements have been developed
  e.g. joint venturing, corporate partnering, co-marketing, co-promotion, strategic alliances, consortium licensing (Sematech)

- No anti-trust enforcement
  Nine no-nos are history
  Positive anti-trust through legislation

- Above all — win/win philosophy, attitude more prevalent

- A new ballgame

TECHNOLOGY LICENSING DOS AND DON'TS (cont'd)

Licensing, technology transfers and investments are much easier to accomplish via patents and other IPRs as vehicles or bases.

Licensing is a very effective and civilized way of forming business relationships and transferring technology — by far preferable to infringement litigation.

New York lawyer gives talks on "Patent Litigation and Trials: The Alternative to Licensing" — incredible

TECHNOLOGY LICENSING DOS AND DON'TS (cont'd)

Misconceptions about royalties and pricing of technology

- licensors can charge what the traffic will bear
- licensors can recoup their R&D expenses
- the cost of the development of a technology is a big factor, etc.

However, the truth is that

- There is a limit to what a licensor can charge and most often it is the licensee's economics, not the licensor's, that controls the royalty determination
- Licensee is entitled to the lion's share because of the greater risk especially with less-than-fully developed technology — 25/75% rule
- The cost to licensor of the development of the technology is not a factor at all. The R&D costs are sunken expenses — the public's interest in buying a product is essentially unrelated to the cost of developing it.

TECHNOLOGY LICENSING DOS AND DON'TS (cont'd)

Objective in royalty setting and pricing: viable win/win licenses (less is more and greed never pays off)

At CIBA-GEIGY several agreements

- went South or
- had to be renegotiated.

Reasons: high royalties, insufficient profitability, so deals could not be sustained.

TECHNOLOGY LICENSING DOS AND DON'TS (cont'd)

Tom Arnold's *"100 Factors Involved in Pricing the Technology License"*
Most important factors:

- the state of development of the subject technology (embryonic, early stage and untested v. tested and commercial)
- the strength of the IPRs (solid v. weak, easy to design around)
- the degree of exclusivity (exclusive v. non-exclusive)
- the geographic scope

Operative clauses in a license have economic weight, e.g. grantbacks, payment structures and schedules, most-favored-licensee clauses, reps and warranties, etc.

Hence, royalty setting is not the first task in negotiations but the last one —
to be tackled only after all the terms have fallen into place.

TECHNOLOGY LICENSING DOS AND DON'TS (cont'd)

To be kept in mind:

Royalty-free licenses can be more profitable than royalty-bearing licenses in terms of goodwill and sale of goods

Examples:

- CIBA-GEIGY — carpet tufting process patents licensed to carpet manufacturers in hopes of selling more dyestuff
- Iridian Technologies — a dozen of patents on iris-recognition software licensed —

  Reason: upside of software sales greater than downside of royalty collection.

HYBRID LICENSES

Patents and trade secrets (and other IPRs)

Very prevalent — >80%

Problematic — different duration, etc.

Solutions:

- Separate agreements — ideally
- Lumpsum payments
- Differentiation between patents and trade secrets
- Allocation of royalties to each
- Reduction of royalty rate if patents
  - terminate
  - declared invalid
  - if applications not issued
- Reduction of royalty-payment period (e.g. 10 years)
- Grant of royalty-free license to patents
- Grant of trade secret license — no patent license

FOREIGN LICENSING
CULTURAL DIFFERENCES

Americans

An executed contract is a definite set of rights and obligations strictly binding the two sides:
•Sanctity of contract
•"A deal is a deal"

•Signing a contract is "closing a deal"

Preference for very detailed contracts to cover any and all contingencies

To solve problems, parties look to their written contract

"If you don't have it in writing, you don't have it"

Asians & Others

The "deal" being negotiated is not the contract but the relationship between the parties:
•Essence of the deal is the relationship, subject to reasonable changes over time

•Signing a contract is "opening a relationship"

Preference for statement of general principles ("Heads of Agreement")

To solve problems, parties look to their relationship

"It does not matter what you have on paper"