

FORESTALLING THE SNEAK ATTACK

COPING WITH PATENTS THAT LURK IN THE SHADOWS

BY STEVEN J. FRANK

Even for a technology behemoth like **Microsoft Corp.**, getting slapped with a \$1.5 billion patent verdict has to smart. But the cruelest sting of all may have been inflicted by mistaken assumptions.

Long before **Alcatel-Lucent** sued Microsoft on patents covering the MP3 audio technology used in the Windows operating system, Microsoft had paid \$16 million to Fraunhofer-Gesellschaft zur Förderung der angewandten Forschung e.V. for rights to this very technology. Fraunhofer, which developed the MP3 compression technique in conjunction with Bell Labs, has sold licenses to dozens of technology companies (including **Apple Inc.** and **Texas Instruments Inc.**). So Microsoft, not unreasonably, assumed that it had appeased the patent monster.

But especially in the complex world of information technology, there may be more than one monster. Even basic algorithms and systems can have many separate features—any of which might be independently patented. And for reasons ranging from varying technical vocabularies to ambiguities in the U.S. Patent and Trademark Office's classification system, it's often impossible to identify every patent conceivably relevant to a new idea. The owners of those patents, however, may be watching the marketplace carefully. They have the advantage of knowing their own obscure terrain, in effect seeing without being seen.

So how does an innovator guard against rights that lurk in the patent thicket? First, by accepting that certainty is not an option; it is possible only to reduce risk to

a level that's acceptable from a business viewpoint. And, second, by taking some proactive steps.

The most obvious measure is a "freedom to operate" search that seeks patents (and published applications still undergoing examination) relevant to the new idea. But don't put excessive faith in a "clean" search that reveals nothing threatening. Investigate standards bodies that may be working on the problem. Industry consortia have proliferated precisely to counter the problem of widely dispersed patents. Concentrating all necessary intellectual property rights in a single organization simplifies life for innovators; while those rights might not be free, at least they're available.

But as Microsoft learned, paying a toll may not guarantee safe passage. Even standards bodies cannot deliver an assuredly complete rights package, since non-participating inventors may hold relevant patents. Still, standardization efforts usually include most of the large players—the ones most likely to own the key rights (and the resources to enforce them). Licensing intellectual property rights from a single player, even the acknowledged originator of the technology, is more risky.

The first step is to do more digging. Who else has licensed the technology? The rights holder may refuse to say, citing confidentiality obligations. But some time spent on Google and with friendly industry contacts can reveal the major adopters. The more players that have signed on, and the longer they have used the technology without being sued, the greater will be the

margin of safety—particularly if the adopters are highly visible and well-heeled (i.e., prime litigation targets).

It's also important to be a skeptical consumer. Obtain a complete list of the IP rights on offer, and check whether they have been litigated. Ask the rights holder if it is aware of any competing claims to the technology, and if the answer is no, the license you negotiate should include a representation to that effect. You can go further, asking the licensor to represent that no relevant third-party IP exists at all, and to indemnify you should a lurker pounce from the patent thicket. But don't hold your breath. Absent an exclusive license or extraordinarily high license fees, a licensor is unlikely to offer the equivalent of intellectual property insurance.

It may, however, agree to a "royalty-stacking" provision. This licensing term mitigates the economic effect of royalty obligations to more than one patent owner. A typical anti-stacking clause calls for reduction in the royalty rate payable to the IP licensor if practice of the licensed technology requires additional rights from third parties.

None of these measures can guarantee safety or certainty. The goal, however, should be risk assessment and management—ask questions, take precautions and be ready (perhaps with a "workaround" strategy) should a threat emerge. ■

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