Global Intellectual Property Asset Management Report

Covering e-commerce, corporate intellectual property management and related licensing

August 2006
Volume 8,
Number 8

Nanotechnology Patent Case Illustrates International Trade and Government Contracting Pitfalls

BY J. STEVEN RUTT, LEON RADOMSKY, STEPHEN B. MAEBIUS (FOLEY & LARDNER LLP)

One very important segment of nanotechnology is nanomaterials (e.g., carbon nanotubes, nanoparticles, quantum dots, nanocrystalline diamond, nanowires, and the like). Companies operating in this space must be able to protect themselves with patents, particularly as commercial manufacturing progresses to larger scales and international markets. While trade secret protection may be appropriate, patents often provide better intellectual property protection. However, a recent court case made clear that the business strategy must include consideration of two key factors: international trade and government contracting. Specifically, *Zoltek v. United States* (Fed. Cir., No. 04-5100, 3/31/06) demonstrates some pitfalls that arise. This article reviews the *Zoltek* case and discuss business, legal, and policy strategy in view of modern realities of international trade and government contracting.

continued on page 2

Information Law Round-Up: Issues From Around the Globe

BY THOMAS J. SMEDINGHOFF (WILDMAN HARROLD)

CONTENT

EU – European Union Releases Online Content Consultation. On July 28, 2006, the Information Society and Media Directorate-General ("DG Information Society") of the European Commission released a Public Consultation on Content Online in the Single Market. The document officially opens a public consultation for the preparation of a Communication on Content online to be adopted by the European Commission at the end of this year. The Communication will explore added-value actions that could be taken at European level to improve the competitiveness of the European online content production and distribution industry. It will also examine the types of instrument which could be used: hard/soft legislation, promotion of best practices, financial support, etc. See Public Consultation at http://ec.europa.eu/comm/avpolicy/docs/other_actions/contentonline-questionnaire.pdf.

continued on page 10

IN THIS ISSUE

Pitfalls from page 1

What Happened?

Zoltek is a U.S.-based carbon fiber company. Carbon fibers are advanced carbon materials that connect with other forms of nanostructured carbon such as carbon nanotubes and nanodiamond. Zoltek patented in the United States a method of manufacturing carbon fiber sheets that have controlled electrical resistivity on their surface.

The U.S. government and its contractors can escape infringement of method claims in U.S. patents if they outsource to foreign countries the production which uses the claimed method.

The U.S. government contracted with Lockheed Martin Corporation (Lockheed) to design and build the F-22 fighter. Lockheed then subcontracted with foreign companies to make advanced material fibers for use in the F-22 fighter. These fibers were manufactured in Japan and then imported into the United States to be incorporated into the F-22 fighter.

In 1996, Zoltek sued the U.S. government for patent infringement in the U.S. Court of Federal Claims under 28 U.S.C. § 1498(a). Under this section of the U.S. Code, whenever a patented invention is manufactured for the U.S. government by a contractor without license from the patent owner, the patent owner's remedy is a patent infringement suit against the U.S. government, rather than against the government contractor.

Court Holdings and Reasonings

The Court of Federal Claims held that it lacked jurisdiction for the § 1498(a) infringement claim because the accused fiber sheets were made in Japan, and 28 U.S.C. § 1498(c) excludes claims for patent infringement that arise in a foreign

continued on page 9

GLOBAL INTELLECTUAL PROPERTY ASSET MANAGEMENT REPORT

Published by WorldTrade Executive, Inc.

EDITORIAL STAFF

WorldTrade Executive, Inc. staff involved with *Global Intellectual Property Asset Management Report* includes:
PUBLISHER: Gary A. Brown, Esq.; DEVELOPMENT EDITOR: MARY ANNE CLEARY;
CONTRIBUTING EDITOR: Scott P. Studebaker, Esq.; ASSISTANT EDITOR: Dana Pierce

Global Intellectual Property Asset Management Report is published 12 times per year by WorldTrade Executive, Inc., P.O. Box 761, Concord, MA 01742 USA. Tel: (978) 287-0301; Fax: (978) 287-0302. Electronic Mail: [info@wtexec.com].
Home page: http://www.wtexec.com. Subscriptions: $659 per year; $709 non-U.S. addresses.

Planning Strategy

Licensing Competitors: A Knife in Your Rival's Hand or the Monopolist's Best Friend?

BY RICHARD CAULEY (WANG, HARTMANN & GIBBS, P.C.)

Intellectual Asset Management, since "Rembrandts in the Attic" and "Edison in the Boardroom," has become big business. Accounting firms, law firms and consultants have descended on anyone with a patent portfolio, encouraging them to "monetize" their intellectual property asset by any means possible: licensing, sale and even giving the assets away to charity for the tax write-off. Companies as large as IBM have engaged in extensive licensing programs to try to wring the last penny out of the sometime gargantuan patent portfolios which had hitherto been gathering dust. Texas Instruments, in fact, took this a step further, cutting a well-known swath through the semiconductor industry in the mid-1990s aggressively litigating their portfolio.

For those companies with more modest ambitions – and who are willing and able to make their own decisions about how best to deploy their intellectual property assets, the question remains – what will be the competitive impact of launching, for example, a patent licensing campaign? Who should I be licensing to and why? Should I license everyone available or are there some companies I should not license to? Could the financial benefit I might receive from licensing my patents end up giving my competitors a club to beat me with? Or, might I gain a greater competitive advantage by licensing not one, but to all of my competitors?

For most companies, licensing your core patents to a direct competitor simply to increase revenue is extremely dangerous and, in many cases, simply foolhardy. Jeff Weedman, VP of Proctor & Gamble, points out the competitive risks of this practice which, for some reason, P&G is willing to incur: "We will license to our competitors . . .. The fact that we're going to license technology means that we're no longer simply competing with the innovations of our competition, but we're also competing with ourselves. This forces us to run faster and innovate faster to stay ahead." Although this practice may work for P&G, deliberately allowing your competitors the right to use your core inventions so that they can gain a competitive advantage against you is an economic trade-off that most companies would regret in very short order.

A poorly drafted license to a competitor can pose even more serious dangers. Your competitor may end up sublicensing your patent to yet other companies – without compensating you – or may develop improvements to your invention, which it could then patent and use to threaten – or even sue – you.

It is often a poor idea to give your competitors access to the very thing that makes you distinct – your core intellectual property – simply to gain a short term bump in the bottom line.

And, just as a basic rule of business, it is often a poor idea to give your competitors access to the very thing that makes you distinct – your core intellectual property – simply to gain a short term bump in the bottom line. Apple has kept its distinctiveness by refusing to license the MAC operating system, for example. Although it has, perhaps, sacrificed licensing revenue, it has more than made up for it by being able to keep its own margins high. You will rarely, if ever, be able to charge enough for a license to substantially increase your competitor's costs and you will devalue what makes your company special. There are, however, unique circumstances under which licensing your patents to a competitor can work to your advantage: establishing or maintaining a monopoly and setting a technological standard.

As Sony learned with Betamax, sometimes being "special" does not work to your competitive advantage. No one disputed that the Betamax was technologically superior to the VHS format, but Sony, by refusing to share its intellectual property with its competitors, allowed them to set the standard for videotape formats and cost Sony dearly.

continued on page 4

Planning Strategy

Licensing from page 3

Indeed, the sharing of intellectual property – under the watchful eye of the antitrust regulators, of course – can often work to the advantage of the largest players in an industry, who usually dominate the standards-setting committees (through, for example, the IEEE) and license each other the patents to technologies they are already working on, to their mutual advantage – and to the disadvantage of their smaller rivals. Sometimes, as with the high definition TV wars, competing groups of competitors race to establish their own standards, hoping that their cabal will prevail. Indeed, if you move fast enough, you may even be able to become the standard for your technological niche – a tactic successfully employed by RIM for its Blackberry technology (before it stepped into some quite different patent trouble).

The all time champion in using this latter strategy is, of course, Microsoft, who has leveraged the licensing of its software into a complete monopoly of most consumer applications software. Although Microsoft's dominance of the operating system market is long standing, it is its practice of developing and licensing the use of its application software, such as Word and Excel for use on competing operating systems, such as Apple's which is particular interesting. Although it might appear that it would not be to Microsoft's competitive advantage to encourage the use of a competing operating system by allowing Mac users the ability to use these popular programs, what Microsoft has done is almost completely precluded anyone else from gaining a toehold, however, small, in the word processing market by developing a "Mac-based" word processing product – thus maintaining Microsoft's monopoly in that market. However, just because Microsoft may be able to use its dominance to counter the competitive disadvantages of licensing competitors doesn't mean that you can, or should even try.

So, in short, it is not always a good idea to listen to the siren song of the consultants and lawyers who want you to license everything to everybody. Pick your licensees carefully and don't sell your biggest rival a knife he will later use to stab you in the back. ❑

Richard F. Cauley is a senior trial lawyer in the Newport Beach, California office of Wang, Hartmann & Gibbs, P.C., a law firm concentrating on business litigation and intellectual property. He has over 20 years of trial experience in complex patent infringement and other trademark and copyright litigation. For more information, contact Anna Lisa Biason, ALBiason@jcpw.com or (949) 833-8483 x119.

Country Report

The Bojangles Decision and the Importance of Trademark Reputation in Canada for Well-Known Foreign Trademarks

BY CARLOS DE VERA AND JIM HOLLOWAY (BAKER & MCKENZIE LLP)

In *Bojangles' International, LLC v. Bojangles Café Ltd.*, the Federal Court of Canada ruled that those who own a well-known foreign trademark which they have not used in Canada cannot rely upon a spillover reputation to prevent a third-party from registering a similar trademark in Canada, unless they can show that their foreign trade-mark enjoys a sufficiently substantial reputation in Canada as to negate the distinctiveness of the other party's trademark.

In this particular case, the foreign proprietors of BOJANGLES restaurants were not permitted to rely upon the alleged reputation that the BOJANGLES trademark enjoyed to stop another company from registering the trademark BOJANGLES CAFÉ in Canada for use in association with similar wares and services. While the Federal Court held that the foreign trademark did not have to be well-known or widely known, it held that it had to be known to some extent and have a reputation in Canada that was "substantial, significant or sufficient".

While this ruling will make it more difficult for companies to rely upon foreign trademarks to prevent Canadian companies from registering identical or similar trademarks, it will not necessarily defeat their ability to stop a company from using a similar trademark in circumstances where that use is shown to be likely to cause confusion amongst consumers in Canada. In these situations, the foreign trademark owner may still be able to obtain a civil court injunction to prevent activities that are causing confusion in the market, having regard to the spillover reputation that their foreign trademark enjoys. ❑

Carlos de Vera (carlos.m.devera@bakernet.com) and Jim Holloway (jim.holloway@bakernet.com) are in the Intellectual Property group of Baker & McKenzie LLP in Toronto.