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IP due diligence: Even more critical in a troubled economy

By JON MAKI

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Pick up any newspaper or trade journal and you will see the news of mergers and acquisitions, particularly in biotechnology and high-technology industries where venture capital is tight and the IPO window has been closed for some time. Cash is king, and those who have it are looking to acquire companies with strong pipelines, intellectual property portfolios and/or strategic positioning. But just because a company can be acquired for less than it was worth a short time ago doesn't mean that thorough IP due diligence isn't necessary to avoid costly mistakes down the road.

The upfront costs of such a



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review outweigh the risk of finding a deal-breaking issue only after the deal is done. Thus, a detailed investigation

into IP asset scope and ownership is particularly critical for risk assessment in M&A transactions. Properly conducted IP due diligence will present information that is essential in assessing value, price and structure of a potential acquisition. IP due diligence is not just for the buyer; seller-side due diligence can locate key IP assets to be retained and attractively position companies for potential investors/acquirers.

Certain tips and best practices promote a thorough but efficient IP due diligence review.

1. Establish the goals and the anticipated transaction. How IP due diligence is conducted often depends on the deal in question. Clear goals

help both the buyer and seller best prepare and complete IP due diligence, even if the results sometimes change the structure of the deal.

2. Establish a timeline and budget. An experienced professional will know how much can be accomplished and how deep the review can go based on timeline/budget so that an appropriate search strategy and team can be employed. A flexible approach to the methodology, sources searched, people interviewed, and form of report can be tailored to fit time and budgetary constraints. Anticipating and securing records beforehand avoids rush charges and downtime. Regular (telephonic or Web) meetings are a cost-effective way to address

potential issues before the final report, which itself may require significant effort depending on the results.

3. Establish record keeping procedures for the due diligence. Given the current financial climate, good organization before, during and after the review is essential to efficiently completing the task. A checklist is a must but properly assigning and tracking tasks is paramount. Recording what searches took place, the results and who reviewed what ensure completion without duplication.

4. Establish a multi-disciplinary team. A team of IP professionals with patent litigation, prosecution and licensing expertise as well as trademark and trade secret experience may be necessary to most effectively assess an IP portfolio. Not every IP lawyer has experience in each of these areas, each of which can pose significant risks to a deal.

5. Establish the rights necessary for the deal to get done. Determine what the buyer needs to complete the transaction and, if applicable, clearly set forth any IP assets in which the seller is retaining rights. Some critical compo-

nents that must be evaluated and addressed include:

Ownership issues: This can be as simple as inspecting the chain of title documentation. But a prudent buyer may also want to see any agreements conveying to or acquiring rights from third parties and conduct interviews regarding collaboration, consulting and employment agreements that can affect ownership and inventorship. Prudent sellers will have this documentation readily available and be able to explain the deals, policies and procedures that governed their creation.

Freedom to operate (FTO): The seller may be in the best position to explain the legal roadblocks and hurdles to commercializing a product based on the seller's IP rights, but independent analysis of the known blocking patents must be done. Depending on time and budget constraints, independent FTO searches are frequently employed. Products made in accordance with strong patents can still sometimes be blocked by others' patent rights. But exercise caution in disclosing opinions of

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San Diego's newest IP firm stresses personal service

By DOUG SHERWIN

The Daily Transcript

A new intellectual property law firm has opened in San Diego, but it doesn't have any office space or a centralized mailing address.

A joint venture between five local attorneys that launched this month, **TechLaw LLP** is among the new wave of "virtual" law firms whose partners work out of their homes.

With it, the participating attorneys benefit from the advantages of a limited liability partnership while running autonomous, individual practices without massive overhead costs.

"I remember sitting in my office and e-mailing someone two offices away," said Jane Babin, a partner with TechLaw recalling her days in a traditional law firm. "There were times I'd go for a week without seeing anybody. I'd be in my office doing my work, and I could just as easily have been working at home or someplace else."

"I don't think I'd ever go back to (a) big firm again."

Babin, who has a background in molecular biology, worked as a patent attorney for **Paul, Hastings, Janofsky & Walker; Pillsbury, Winthrop, Shaw & Pittman** and **DLA Piper** before venturing out on her own a year and a half ago.

When she decided it would be beneficial to have a support

network where ideas could be exchanged, she helped form TechLaw.

Babin is joined by former **Biotech Law Group** attorneys Sam K. Tahmassebi and David W. Maher, along with attorneys Manuel de la Cerra and Dana Robinson.

"I liked the independence that it offers and the quality of life," Tahmassebi said. "I basically get to work with the same great clients and interesting subject matter that I used to work on when I worked at a big law firm. Here I'm quite independent and do my own thing."

With no headquarters and its requisite office staff, the firm operates on a lean and efficient budget.

The five partners work from their homes, renting a conference room whenever necessary for a client meeting. Babin said she'll hold face-to-face strategy sessions at her dining room table, which she's done before with no complaints.

The group will meet once a week or so to brainstorm and exchange information on legal trends but otherwise will communicate via telephone or e-mail.

"Clients will get a lot better, more personal attention from our attorneys because, at large law firms, associates are overwhelmed with work and can't devote the time necessary to give clients the service they

need at a reasonable price," said Tahmassebi, who used to work for IP heavyweights **Knobbe, Martens, Olson & Bear** and **Lyon & Lyon**.

With TechLaw keeping its expenses down, the firm passes the savings onto its clients. The group also has more flexibility than traditional law firms.

"I've worked in firms where this is the way things will be done for all clients," Babin said, adding, "I can maintain flexibility in terms of what types of services we provide, how we provide them, and there's not as much red tape with my practice and other practices."

The firm will focus mainly on patent prosecution, with Robinson providing trademark experience. The firm can also handle litigation.

Maher is a biochemist, while de la Cerra is an electrical engineer.

Babin and Tahmassebi both acknowledged that the "virtual" law firm model works best for transactional attorneys who tend to work individually anyway.

"I don't see it working very well for litigation attorneys," Tahmassebi said, "because they need to do a lot of team work with litigation. But for patent prosecution attorneys, this is the model that works best."

"Patent prosecution at large

firms ends up very expensive because the billing rates are very high. I think eventually clients realize it makes more economic sense to go with 'virtual' law firms."

TechLaw does not have any immediate plans to add associates or junior lawyers.

Babin said the firm's plan is simply "to expand our recognition in the community — individually and as a group — and be a very strong IP presence in San Diego and California in general."

"I think we can compete from a legal standpoint certainly," she added. "We have all the skills necessary to handle clients' patent prosecution work and, with support between partners, it will make it more comfortable (when) clients might be hesitant to hire solo practitioners."

TechLaw's arrangement gives the partners the ability to better organize their personal time.

Tahmassebi, a father of two, can take his kids to and from school as well as attend all their extracurricular activities.

"I work less hours than I did before," he said. "I have a lot less stress as result of that. I consider myself a well-rounded person, having interests outside of my professional interests, and working here allows me to pursue those interests."

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Patent marking and the SaaS business model

By PATTRIC RAWLINS

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Many companies today have adopted the SaaS (software as a service) business model for deploying software to customers. In the SaaS model, software applications are hosted for customers who access the application across a network such as the Internet. The SaaS business model is attractive because it eliminates the need for customers to install the application on their hardware and reduces their overall IT burden by shifting software maintenance and version upgrades back to the software provider.

Innovative companies that are patenting the methods employed by their SaaS products need to carefully consider the need to appropriately mark their SaaS products as required by the marking statute (35 U.S.C. § 287). Historically, patents with method claims have not required marking because

there was no tangible product to mark. Recently, however, the courts have been applying the marking requirements to Web site operators, finding that a Web site is a tangible item that can be marked, thereby providing a vehicle for constructive notice of the patent to potential infringers, which is a goal of the marking statute.

The penalty for failure to mark is the inability to recover damages for any infringement that took place prior to the infringer receiving actual notice of the infringing activity. Under the marking statute, filing a patent infringement lawsuit constitutes actual notice.

When marking a SaaS product, the software provider needs to use only those patent numbers that have claims that cover the product to avoid false marking. False marking is placing (with the intent to deceive) a patent number on a product

that is not covered by any claim of that patent, or placing "patent pending" on a product when no patent application related to the product is pending. False marking also includes continuing to mark a product with the number of an expired or invalid patent.

The penalty under the false marking statute (35 U.S.C. §292) is a fine of up to \$500 per offense. The false marking statute allows any person to file the lawsuit, and that person receives one-half of the fine, while the United States receives the other half.

The potential economic exposure under the false marking statute is staggering. Recently, an individual sued **Solo Cup Co.** for false marking of its cup lid products based in part on Solo failing to remove certain patent numbers from its products after those patents had expired. The plaintiff is seeking damages of \$100

billion under the false marking statute, the aggregate of \$500 per unit.

For companies employing the SaaS model and receiving recurring revenue, each revenue period could be considered a separate offense under the false marking statute. Companies employing the SaaS model to distribute patented or patent pending technology should therefore review their marking practices to ensure marked products are covered by each patent listed on the product. The recommended practice is to document the reason for marking each patent number or "patent pending" on a product to negate the intent to deceive requirement under the false marking statute.

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The demise of business method patents?

By MICHAEL M. ROSEN

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Former **Hewlett-Packard** CEO Carly Fiorina once said that "the goal is to transform data into information, and information into insight." But in the realm of so-called "business method patents," which disclose and claim new methods of doing business, what happens if data doesn't actually get transformed into anything? A key court recently held that such inventions cannot receive patent protection.

Business method patents have been the subject of debate since the inception of such patents early in the life of the U.S. Patent and Trademark Office (PTO). Prior to the computer age, the PTO was resistant to granting patents on such inventions, but technical advances in the 1980s and 1990s led to a relaxation of this standard. Observers hotly debated the PTO's guidelines for determining if a business method was patentable, as well as the entire premise that methods for doing business could be patented.

Late last year, the U.S. Court of Appeals for the Federal Circuit — the specialized court that hears appeals of all patent cases — issued a landmark opinion, entitled *In re Bilski*, that closed the book on the issuing business method patents of by the PTO — or has it?

Bernard Bilski and his co-inventor filed a patent application that claimed a method of hedging the risks associated with transactions in commodities markets. The patent claims related to the purchase and sale of commodities and to buying and selling options on those commodities. Rather than restricting their invention to computer software implementing this hedging strategy, the inventors sought to patent the conceptual framework underlying it.

After the patent examiner who considered the claims rejected them as "non-patentable subject matter," and following a similar rejection by midlevel appellate body, Bilski and his co-inventor appealed to the Federal Circuit.

The court began its analysis with a broad survey of its — and the Supreme Court's — prior rulings on what qualifies as a useful invention. In 1981, the Supreme Court held that "laws of nature, natural phenomena, (or) abstract ideas" are not patentable because they form "part of the storehouse of knowledge of all men ... free to all men and reserved exclusively to none."

The inventive process that the court ruled on involved applying a well-known mathematical equation to a piece of rubber to cure it in a particular way. Although the process involved the use of a mathematical algorithm, the court reasoned that the applicants did "not seek to pre-empt the use of that equation. Rather, they (sought) only to foreclose from others the use of that equation in conjunction with all of the other steps in their claimed process." Because such a real-world application of an abstract principle didn't altogether pre-empt the use of that principle, the court upheld the patentability of the invention.

Thus, if the invention involves employing an algorithm on a particular machine, it would not foreclose others from using that algorithm on other machines. Likewise, taking a concrete item and using the principle to transform it into

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