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Seven Sins of Software Sellers: Common Mistakes In Protecting Intellectual Property

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It has been a couple of years since the dot-com party abruptly ended—when software as ordinary as sand commanded prices befitting a masterpiece painting.

Today, firms must rely on their genuinely innovative ideas for business survival. Buzzwords and high-priced promotion have been exposed; software companies must stand or fall on strong patents and truly groundbreaking innovation. Now executives must understand whether a new idea is tainted with defective legal protections such as poor patents or incomplete contracts.

Here are some of the common legal mistakes software executives make when evaluating the quality of technology protection.

One: When a Patent Application is Not a Patent

If a patent is appropriate, companies often mistake various filings and procedures for full patent protection. For example, patent attorneys may recommend initially filing a “provisional patent application.” This provisional patent application protects the filing date for one year. The document itself generally describes the invention, but often does not provide the needed detail for a full patent filing. Companies, or their business partners or investors, dangerously confuse these “provisional patent applications” for the real thing.

Two: Endure the Tedious Patent Homework

If a company is serious about its technology, it cannot simply file a patent application or hide an invention from the competition. It must also consistently survey the literature in the industry to ensure that no one else has filed claims for the same invention. Intellectual property pirates could have pilfered the technology from the conscientious inventor who honestly and fairly kept it secret.

Aggressive players of the patent game might also try to push the patent rules to their limit. Firms often file overly broad patent claims simply to crowd out the market. Another technique is to file numerous patents for variations on the same inventive theme. The honest company must diligently review published patent applications, articles, web sites or other marketing materials. Intellectual property will become devalued without this effort. Getting patents or confidentiality agreements is like arriving at the battlefield—not fighting the battle itself. The real fight involves constant surveys of intellectual property articles and public claims, as well as expensive litigation.

Three: Guns without gunpowder

An intellectual property strategy must include reserves for litigation. If the software is genuinely the most valuable in the market, then others will copy it aggressively. Often, competitors will encroach on the idea to test the bounds of the law and the resolve of the rightful owner. Even if a competitor does not use the entire idea, they might incorporate elements of the new concept into a competing product. Innocently or not, competitors might include some elements of the idea in new variations of their product. The original owner of the intellectual property must first expend the time and the funds to monitor the market to ensure that no one else uses the idea. This requires diligence and notices to the infringing party to “cease and desist” from marketing the offending products. To preserve future claims, a company must demonstrate a track record of diligent surveillance of the marketplace, and discipline in providing notice to potential infringers.

Four: Incomplete Confidentiality Agreements

Trade secrets absolutely demand well-crafted confidentiality agreements. Skimp on these details and an entire trade secrets program may collapse. If the company's trade secrets are truly valuable, then the employees and all third parties with access to the company secrets should sign these documents. Collecting signed agreements is the easy part. Organized files can make the difference between retaining and losing trade secrets. These agreements should be considered as valuable as stock certificates, bonds, or patent and trademark certificates. File them, bury them, stash them in a safe deposit box—do whatever it takes to hold onto a complete and organized file of these documents, as we'll as all agreements that include significant confidentiality clauses.

Five: Selling the Soul of IP

License agreements, especially with Fortune 500 customers, often include one-sided provisions giving customers rights to intellectual property under the most trivial of breaches. Some large software users may demand significant rights under ancillary software escrow agreements or license agreements. These sometimes include provisions granting rights to source code upon late delivery, or missed milestones. Identify the critical elements of the license, and negotiate hard to protect the IP—while at the same time closing that make-or-break software deal.

Six: Matching the Product Cycle with the Patent

The life of the patents should correspond to the lifecycle of the software innovation. Patents are usually issued between two and four years from the filing date—sometimes much longer. During the same period, the hardware platform for the customer may have changed, new chips marketed, communications speeds enhanced, and computer architecture improved. By the time an enforceable patent issues, there may be relatively little time to exploit the invention. Occasionally, large companies file an excessive number of process patent applications on software. The delay getting the patent will render it

virtually worthless in the context of software. However, the simple act of filing the application can be used to bully smaller companies when negotiating cross licensing and revenue sharing deals. For the smaller technology-focused firm, however, this brute force strategy yields few valuable results, since it will lack the money and time to casually exploit worthless filings to intimidate under-funded competitors.

Seven: Bragging Rights Should Follow Patent Rights

Sadly, inventors who have boasted of their invention in articles, speeches, or to colleagues may have accidentally disqualified the idea from patent protection. A good patent attorney will not waste the client's time preparing a filing in cases of early disclosure and tardy filing. Even if the Patent and Trademark Office overlooks the late filing, the competitor bringing the law suit will not.

Patent attorneys will initially determine if someone (including the inventor) has already sold or promoted the invention—that is, whether "prior art" disqualifies the patent. This simply provides that the premature publishing or disclosing of ideas will render the patent unenforceable. Often, the inventor brags of the invention to colleagues in the profession—through articles, web pages, chat rooms, or speeches. These inventors (who are at times professional academics) are judged by their peers by how prolific they produce meaningful innovations in their fields. Also, the smaller software firm, attempting to generate product excitement to attract more customers and investors, will prematurely boast of its great idea. Many patents have turned to legal dust from the early and innocent enthusiasm of the inventor. In this case, business clearly trumps academics in a for-profit technology firm: disclose as little as possible until the concept is comfortably on file with the Patent and Trademark Office.

Follow the Rules

The list above may not address all the issues. The firm that can avoid these mistakes, however, and follow these precautions, may profit far more for their hard work developing software. Elegant code may generate cheers from engineers, but it is effective legal protection that will generate profits from customers.

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