

DISCUSSION:

**MISCELLANEOUS BUSINESS ISSUES
IN INTELLECTUAL PROPERTY**

Audience Member: Mr. Alderucci, what interesting cultural or legal challenges have you had in international monetization of business method patents?

Dean Alderucci: Depending on the culture or country, some are less willing to change than others. Most of my experience has been that the invention is really more important than the patent. Of course the patent is necessary and the patent provides the backup so that the invention can be taken seriously. But first and foremost, people look at the invention, how much money it is going to make, and how much risk is involved.

David Carlson: With respect to building trust, there is a different way that trust is built in Asia as compared to America. In America if you say, "I am going to invest and I will be around for three years," they say, "That is fine, that represents a good level of trust. We consider that long term. Let's go." In Asia, on the other hand, if you say, "Okay, I'm going to invest and I'm going to be with you for three to five years," they say, "My goodness, don't you trust me? Isn't this a good relationship?" They would expect a greater commitment for there to be some kind of a trust relationship established.

In Asia, the length of time that you expect the relationship to exist is a much more important factor than it is in the United States. In the United States, we are much more mobile in all our business dealings and everything. In Japan, you will get a much better reception if you say that you expect to be long-term in that market, that twenty-five years from now, you expect your respective companies to still be having a good relationship. This is quite a striking difference from America.

Audience Member: If the licensee goes into bankruptcy, will the license become a part of the assets?

[Panel Member]: Most license sources want to have it both ways. They want the company to do well, but if it doesn't, they want to grab their assets back. The short, simple answer is that if you are a non-exclusive licensee, it is not a problem. If you are an exclusive licensee, the trustee at the time of bankruptcy, whose job is to increase the size of the estate, is going to fight you tooth and nail and not allow you to get it.

There are ways to get around it. The best advice I could give is to be very careful about what you are licensing and the field of use into which you are licensing. Keep it narrow, in case the license goes away and becomes part of the estate at the time of bankruptcy, so you still have a lot left that you can license. That way, you'll be giving up a very small slice of the pie.

Carlson: This is often a hotly negotiated point when the deal is being made. You can contract what happens in a bankruptcy. You can, as part of your funding agreement, actually state that in the event that either entity goes bankrupt, the assets will go to party A. You can actually put that in a license agreement. I have seen a few situations where that has been honored by the bankruptcy court. You will have a much better chance that it will be honored if you put it in both the investment funding agreement and the contract. That should be on your action item list when you write the investment funding agreement.

Audience Member: There's a bankruptcy code in subsection N which specifically addresses the handling of intellectual property licenses. It is no longer purely a matter of patent record law. It is now in the bankruptcy code. I would recommend that anybody doing licensing read that section.

Audience Member: This question has to do with a newly emerging discipline, the digital rights movement. Intertrust Technologies out of Santa Clara has sued Microsoft in regard to a variety of patent litigation claims.¹ Some of them include charges that the Windows media system, reader, digital asset server, and XP system, all infringe on a variety of patents that Intertrust claims to have had effective a year ago. Could you comment about that?

Jay Kesan: Windows 2000 has thirty-five million lines of code. Microsoft claims they spent about \$1.1 billion to develop the first CD of Windows 2000. There is a lot of technology in there and a lot of people who can claim lots of things. You are talking about a very complicated software package. I think it really comes down to the fact that we are still not in a mode where software is really protected by patents. As a result, what is known and what is not known is a huge issue. Intertrust might genuinely believe that they have valid patents, but there is a lot of prior art out there, so it remains to be seen.

On the other hand, if anyone is left with the impression that patents are so terribly important in this area, that is not the impression I want to convey. Many software companies use other methods of rewarding and protecting their innovation, such as lead-time advantage, complimentary bundling of services, and so on. It is just not the same thing as a patent for a pharmaceutical drug. The structure of the industry is quite different.

END

¹ *InterTrust Technologies Corp. v. Microsoft Corp.*, N.D. Cal., No. C01-1640JL, filed 4/26/01.