

Building a Software Patent Portfolio – Key Business and Legal Considerations

Software patent portfolios are not immune to budget constraints brought on by the challenging business environment facing software companies today. To develop an effective and economical patent portfolio building strategy, a software company must determine in which jurisdictions it makes best business sense to seek patent protection, which inventions to select and when to file applications.

Strategic Country Selection

The United States was the first country to formally recognize the patentability of software in the 1981 United States Supreme Court ruling in *Diamond v. Diehr*, 450 U.S. 175 (1981) at 185 (U.S.S.C.). This case established that computer-related machines and processes were not to be regarded any differently under the patent laws than traditional machines and processes.

In Europe, software inventions must possess "technical character" in order to be considered patentable subject matter. In Japan, the test is whether the information processed by the software is "concretely realized" by using hardware. In Canada, software inventions must have a "practical application in industry, trade or commerce". The Canadian Patent Office is planning to introduce new Guidelines later this year to provide clarity on the Canadian test for software patentability.

While the international landscape on software patents is still evolving, it is clear that software inventions are considered patentable subject matter in many jurisdictions. Accordingly, it is useful to develop a list of "target" countries in which patent protection is to be sought. To create the list, a two-step process may be followed.

First, a "wish list" may be compiled by looking at factors such as: (i) key current markets; (ii) future target markets; and (iii) markets where competitors have extensive operations. Typically, the "wish list" will generate a larger number of countries than a reasonable budget will permit. Countries may be removed using factors such as: (i) unavailability of patent protection due to disclosure or subject matter bars; (ii) poor enforcement of patent rights; or (iii) cost of obtaining patent protection outweighs potential benefits.

Selecting Software Inventions

One important business consideration is whether a particular software invention has long term potential value. Since it typically requires two to three years to obtain an issued patent, there is little reason to expend resources on protecting software that is likely to be obsolete by the time the patent issues.

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We are very pleased to announce the two newest members of the Software/High Technology Practice Group.

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Neil is a senior associate and practices out of the firm's Waterloo office. His practice focuses on strategic IP portfolio creation and management including advising on patent and trade mark prosecution, providing opinions on patentability, validity and infringement, and handling the IP aspects of all types of business transactions. Particular technologies of interest include the mechanical, optical, electro-mechanical, medical, communications, software and Internet areas. Neil also advises clients on IT/copyright law, including software licensing, distribution and outsourcing.

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Ebad is an associate in the firm's Toronto office. He received his law degree from Osgoode Hall Law School and has a Bachelors degree in computer science. Ebad advises clients in matters relating to patents, with a focus on computer-related technology.

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Another factor concerns the specific business-related context in which the company is operating. The investment community often values start-up companies predominantly on their intellectual property holdings. Accordingly, a start-up tends to file a "kitchen sink" type patent application that covers many inventions in order to ensure that all potential patent rights are being preserved.

In contrast, a larger company tends to focus on inventions that relate to its core business, a targeted new business, or the business activities of its competitors (for defensive value). In larger companies, research departments often come up with inventions which have little to do with these targeted aspects. Such inventions should be carefully scrutinized.

When to File

Budget constraints can delay the filing of a patent application. Usually a company wants to ensure that the invention is commercially viable before going ahead with the costly process of obtaining patent protection.

However, in most countries, an invention is not patentable once an "enabling disclosure" has been made available to the public. An "enabling disclosure" is one which would allow a person skilled in the art to build the invention. The United States and Canada provide a one-year grace period in which to file a patent application from the date of an enabling disclosure.

Also, it is possible to obtain patent protection for a software innovation even after commercialization, as long as the innovation cannot be inferred from the commercially available product. However, if the software invention has been in public use or on sale for more than one year in the United States, then it is not possible to obtain patent protection in the United States even if the software invention has not been disclosed by such public use.

These two factors create a tension that may be addressed in two different ways.

A patent application could be filed in a jurisdiction of the company's choice prior to any public disclosure of the invention. Thereafter, international treaties provide the opportunity of deferring national filing costs for one year or more. This strategy preserves the right to seek worldwide patent protection within the convention year.

For those who only conduct business within the United States and Canada, another approach would be to file a patent application in the United States and Canada within one year of public disclosure, public use or sale of the invention. It should be borne in mind that by filing an application after disclosure, the ability to obtain patent protection in most countries outside the United States and Canada is lost.

Speaking of IP....

We are speaking and participating in a number of upcoming conferences and seminars. We hope to see you at one of them!

Stephen Beney of Bereskin & Parr will be participating in a patent panel entitled "Comparative Approaches to Software and Business Method Patents: Canada, U.S. & Europe" at the Intellectual Property Institute of Canada's Annual Meeting, October 14th to 16th in Banff, Alberta. For more information go to www.ipic.ca.

Bereskin & Parr is a proud sponsor of the Eighth Annual IT.Can Conference taking place in Calgary this October. Please join us at the continental breakfast taking place on Thursday, October 21st, 2004, at 8:00a.m. For more information go to www.it-can.ca.

Isis Caulder of Bereskin & Parr will be speaking on "IP Due Diligence" at a continuing education seminar hosted by Osgoode Hall Law School on October 27th entitled "Conducting Effective Corporate Due Diligence". For more information go to www.law.yorku.ca/pdp/cle/

Bereskin & Parr Presents:

From Inception to Profit – Advanced Intellectual Property Issues

October 21, 2004 – Waterloo
October 28, 2004 – Mississauga
November 2, 2004 – Toronto

Intellectual Property - Auditing and Valuing an IP Portfolio

December 2, 2004 – Waterloo
December 7, 2004 – Mississauga
December 9, 2004 – Toronto

For more information and on-line registration please go to www.bereskinparr.com.

Edited by **Isis E. Caulder**. Please send feedback and suggestions for future topics to Isis at icaulder@bereskinparr.com.

The article titled "Building a Software Patent Portfolio – Key Business and Legal Considerations" was authored by **Victor Krichker**. Any questions regarding the article can be forwarded to Victor at vkrichker@bereskinparr.com.

The contents of this Update are informational only, and do not constitute legal or professional advice. To obtain such advice, please contact one of our group members.

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