Growth and Protection Strategies to Help Navigate Your Business Success

Legal:GPS

Intellectual Property Ownership: Freedom to Operate, Avoiding Disputes

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"Intellectual Property Ownership: Freedom to Operate, Avoiding Disputes" was the discussion topic of the September 12, 2007 installment of the Legal:GPS Web conference series hosted by Foley & Lardner LLP and Springboard Enterprises. Dr. Hollis D. Kleinert, president of Kleinert Scientific/Commercial Consultations, spoke on issues relating to patents while Carol E. Handler, Foley Intellectual Property (IP) Department vice chair and partner, addressed patent, trademark, and copyright ownership issues.

Constitutional Basis for Patent and Copyright Protection

Article 1, Section 8, Clause 8 of the U.S. Constitution provides the basis for patent and copyright protection: "The Congress shall have power … to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." A tension exists in this area of law between Congress' original intent to generate creativity for the public good and the goal of compensation to the inventor or author in the form of a "limited monopoly" as incentive to create. Many cases acknowledge this tension by commenting that private ownership is meant to serve the public good.

The rights granted under patents and copyrights are exclusive and have been called limited monopolies. Although U.S. antitrust laws prohibit monopolies, patent and copyright monopolies are acceptable because they are (1) an inventor's or author's reward for his or her creativity and (2) limited in duration, after which time the invention or copyrightable work becomes part of the public domain. However, patent owners are not free to do as they want: They cannot bundle or "tie" unpatented products to a patented product, appropriate group standards, or collusively settle patent litigation to restrict competition.

> *"Intellectual property in its many manifestations is important to our economy and … if you're not concerned with it — you should be."*
>
> Carol E. Handler, Intellectual Property Department Vice Chair and Partner, Foley

Copyright Protection

Copyright laws protect original works of authorship that are fixed in a tangible medium (e.g., a book, a movie, or software). Ownership of the copyright initially vests in the author of the work unless it is a "work for hire." Copyright laws do not protect ideas, but rather the expression of ideas. For example, the idea of a cold, miserable Santa Claus who employs brandy to counteract the cold outside is not protectable; however, the particular expression of that Santa Claus is protectable. Copyright protection also can be obtained for derivative works (those based on preexisting work), but such a right is legal only if permission from the owner of the preexisting work is obtained. Compilations (collections of articles and short stories) also are protectable, but the author only has rights in the compilation and not the individual works included in the compilation. Utilitarian or functional works are not copyrightable. For example, a copyright application for the design of eyeglass frames likely will be rejected by the U.S. Copyright Office. However, a bill currently is pending in Congress that would allow copyrights for such functional items as glasses, handbags, belts, shoes, and clothes. If this bill passes, it will become necessary to determine whether design patent protection, copyright protection, or both should be obtained.

Copyright and patent owners are not required to do anything with their IP rights. In the United States, mandatory licensing does not exist, so nothing requires authors or patent owners to make their work available to the public. Although copyright owners do not have to license their work, if they choose to do so, the right can be divided among more than one licensee. For example, a movie studio can license home-video rights to one licensee and television rights to another.

One important concept in copyright law is the work for hire doctrine. Under this doctrine, the employer or person for whom the work is created is considered the author of the work and therefore owns the copyright. In order to qualify as work for hire, the work must be prepared by an employee as part of his job or by an independent contractor specially commissioned to do the work. For specially commissioned work to qualify as work for hire, it must fall into one

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of nine categories enumerated in U.S. Copyright Law Section 101, and a written agreement memorializing the work for hire must be executed.

Trademark Protection

Trademarks and service marks are source identifiers and therefore protect (1) consumers from being confused as to the source of a product or service and (2) the competitive interests of business owners. Unlike the case of patents and copyrights, the U.S. Constitution does not provide a basis for trademark protection. Federal, state, and common law govern trademark rights, which may be unlimited provided the proper measures are taken (e.g., the trademark is renewed at the appropriate time). Trademark rights are derived from the actual use of a mark in commerce. However, in the United States, trademark applications not only can be filed for marks in actual use, but also for marks that a company has a bona fide intent to use.

Trademark rights can exist in marks, trade names, business names, and the appearance of an article or trade dress. For example, the United States Supreme Court has upheld trademark rights in the look of a restaurant and the color of a dry-cleaning tag. When developing a trademark portfolio, it is important for companies to choose trademarks that are not descriptive or generic. For example, Dry Cleaners is not a strong name for a dry cleaner, but Xerox® is a strong mark for photocopiers. Trademark owners also must be careful to prevent their marks from becoming "genericized," because once a mark is deemed generic, the owner has no more protectable rights in the mark. For example, aspirin, once a trademarked brand name, is now a legally acceptable generic term for a non-steroidal anti-inflammatory drug due to overuse in the market. To prevent the Xerox mark from becoming a generic word for photocopying, Xerox Corporation launched a campaign to encourage companies and consumers not to use Xerox as a verb, but instead use such verbs as duplicate, photocopy, or copy.

Patent, Trademark, and Copyright Litigation

Because the U.S. Constitution is the basis for patent and copyright protection, the federal courts have exclusive jurisdiction over these cases and also may have jurisdictions over trademark cases. Damages can be quite high and can include attorneys' fees. Infringement likely will be found if the market value of the copyrighted work is impacted negatively.

Strategic Considerations for Developing Patent Portfolios

Patentable subject matter includes any new and useful process (including business methods), machine, manufacture, or composition of matter. While patents are the strongest form of IP, they are the hardest and take the longest time to obtain. The patent application process is complex, time consuming, expensive, and requires a patent agent or attorney who is qualified to practice before the U.S. or foreign patent office. During the process of obtaining a patent, the patent owner cannot omit submitting known prior art or otherwise commit fraud on the patent office.

Patent estates or portfolios can be the most important assets of a company. Therefore, all companies need to have some type of strategy for obtaining and maintaining patents. Patents obtained by a company can be divided into two types: offensive and defensive. As the foundation of a company, offensive patents are needed to operate and commercialize the company's products or services, and they should be defended. Defensive patents allow a company to pursue protection for inventions that may not be the core of the company but may have value, and give the company options at a later time.

> *"The patent estate, like every other part of our business, is dynamic. You want the foundation to be solid, but you want to grow it, you want to extend it, and you want to reinvent and change the focus when opportunities arise."*
>
> Dr. Hollis D. Kleinert, President, Kleinert Scientific/Commercial Consultations

Strategy considerations for developing patent portfolios include:

Company Employees

A company's employees are key to developing a valuable patent portfolio. Employees should be required to execute employment agreements acknowledging that they have a duty of confidentiality with respect to ideas, discoveries, inventions, and so forth, and granting ownership of all ideas, discoveries, or other IP created during employment to the company. Such grants also should include the rights to commercialize all ideas and discoveries.

To File or Not to File

At the outset, companies need to prioritize whether and what patents should be filed. This determination can be broken down into two inquires: (1) will the patent issue and (2) if the patent issues, will the company be able to practice the patent and is the patent defensible? The answers to these questions depend in part on the breadth of the claims the company seeks and ultimately obtains.

Claims to Pursue

Should the claims be narrow or broad? Does the company have the data to support the claims? Does the company have the financial means to generate the data needed to support the application and claims?

Defensibility

The determination of the potential defensibility of a patent should be a global consideration. For example, it may be relatively inexpensive to file a patent in a country but very expensive to litigate, or it may be more difficult to defend a patent in one country than another.

Technical and Marketing Strategy
When developing a corporate patent strategy, both technical and marketing personnel need to be involved.

Patent Attorneys
A good patent attorney is indispensable for assisting a company with prioritizing patent applications, determining what types of claims should be filed, and rendering freedom-to-operate opinions. The right patent attorney will have expertise in the particular technical area and understand the competitive landscape, be able to provide business advice, and have a global prospective for IP to assist with sales, licensing, and partnering in local and foreign markets.

Costs of Obtaining and Maintaining Patents
There are numerous costs involved in obtaining and maintaining patents. For example, companies need to plan and budget for fees incurred in connection with obtaining freedom-to-operate opinions, preparing and prosecuting patent applications, filing patent applications in various patent offices throughout the world, and maintaining patents in force. Obtaining and maintaining patent is expensive but — if done correctly — is money well spent.

Trade Secret Versus Patent Protection
Should an invention be maintained as a trade secret or should a patent be filed? Consider filing a patent application if the invention is part of a particular project or the invention is not going to be used throughout the company.

Delay Filing Patent Application
In some circumstances, it may be to a company's advantage to delay the filing of a patent application to maintain the confidentiality of an invention.

Trademarks and Copyrights
A company's branding and patent strategies should be integrated.

Summary

As IP becomes an increasingly valuable business tool, companies are becoming more aggressive about obtaining and protecting assets. The effective development and management of patents, copyrights, and trademarks is important to remaining competitive in national and global markets, and companies should view patents as effective tools that sustain business strategies and provide a competitive advantage.