

INTELLECTUAL PROPERTY



Capstone Senior Engineering Design Class
Lecture – November 2007

by
Brian McNamara
Foley & Lardner

1

PART I



Intellectual Property Aspects of
Business Assets

Foley & Lardner 2

Dictionary Definitions

- Property Exclusive right to possess, enjoy or dispose of a thing
- Intellectual: of or relating to the power of knowledge
- Knowledge: applies to facts or ideas acquired by study investigation, observation, or experience

Foley & Lardner 3

Intellectual Property

Bundle of rights allowing one to exclude others from unauthorized use of one's creative output

Foley & Lardner 4

Why Protect IP?

- Protect or improve market position
- Establish credibility with market/investors
- Generate income
- Exchange for other technology
- Future developments in technology

Foley & Lardner 5

Traditional Forms of Intellectual Property

- Know-how/Trade Secrets
- Patents
- Copyrights
- Chip mask works
- Trademarks

Foley & Lardner 6

Trade Secrets

- Formula, pattern, compilation of information, device
- Used in one's business
- Not generally known in industry
 - cannot be reverse engineered

Foley & Lardner 7

Limitations of Trade Secrets

- No monopoly
- Can be lost to others
- Under some circumstances secret's use can be barred if legitimately patented by another

Foley & Lardner 8

Trade Secret Factors

- Extent to which information is known
 - outside business
 - to employees
- Extent of measures taken to keep information secret
- Value of information to owner and competitors
- Expenditure in developing information
- Ease with which information can be acquired by others

Foley & Lardner 9

Patents

- New, useful
- Process, machine, manufacture, composition of matter, or improvement
- Not mere idea or suggestion
- Protected subject matter defined in claims
- Novel and unobvious
- Exclusionary rights
- Inventorship v. Ownership

Foley & Lardner 10

Patent Applications

“Claim and Explain”

- Written description
- Enabling to one of ordinary skill
- Best mode
- Drawing
- Claims define scope of protection
- Duty of Candor

Foley & Lardner 11

Types of Patent Searches

- Patentability - any patentable subject matter
- Infringement - product clearances
- Validity - patent litigation

Foley & Lardner 12

Patent Infringement

- Determined Claim by Claim
 - Literal/means plus function
 - doctrine of equivalents
- Defenses
 - no infringement
 - patent invalid
 - not patentable subject matter
 - prior art
 - antitrust/patent misuse

Foley & Lardner 13

Patent Infringement (Cont'd)

- Remedies
 - Injunction
 - Damages
 - i) lost profits
 - ii) reasonable royalty
 - iii) enhanced (willfulness) – new standard
 - iv) accelerated

Foley & Lardner 14

Copyrights

- Subject matter
 - creative expression; not ideas, principles, concepts, etc.
 - tangible medium of expression
 - rights effective immediately when fixed in medium

Foley & Lardner 15

Copyrights (Cont'd)

- Works Covered
 - literary (including software)
 - musical, dramatic, choreographic
 - pictorial, graphic & sculptural
 - architectural
 - sound recordings

Foley & Lardner 16

Copyrights (Cont'd)

- Owner's rights
 - reproduce
 - adapt
 - public distribution, performance, display
 - Multiple rights in same work – e.g., music

Foley & Lardner 17

Copyright Notice

- No longer required but very useful
- Deters copying
- Eliminates defense of innocent infringement
- Put in conspicuous place

Foley & Lardner 18

Copyright Registration

- Relatively easy
- Submit form and copy of work
 - black out trade secrets
- Registration required to sue
 - no statutory damages or attorneys' fees (only proven damages) if:
 - i) infringement of published work precedes registration and work not registered within three months of publication

OR

- ii) infringement precedes registration of an unpublished work

Foley & Lardner 19

Copyright Infringement

- Direct Infringement – literal & non-literal
- Contributory Infringement – Inducement
 - Reasonable knowledge & material contribution
 - Non-infringing uses
- Vicarious liability
 - Right/Ability to Supervise & Financial Interest
- New emphasis on intent - Grokster

Foley & Lardner 20

Remedies for Copyright Infringement

- Defenses
 - Not copyrightable subject matter
 - Fair use
- Injunction
- Impounding
- Damages
 - statutory
 - lost profits
 - infringer's profits

Foley & Lardner 21

Trademark/Service Mark

Subject Matter

- Word
- Design (non-functional feature, unless secondary meaning or distinctiveness exists)
- Design/word combination
- Symbol
- Slogan
- Distinct sound

Foley & Lardner 22

Functions of Trademarks/Service Marks

- Indicates source of origin of Goods/Services, but not need contain owner's name
- Identifies secondary sources or endorsements, e.g. Redskins T-Shirts
- Can ID non-producing seller or merchant
- Goods/Services under marks meet a quality standard

Foley & Lardner 23

Selecting A Mark

- Fanciful
 - Arbitrary
 - Suggestive
 - Descriptive
 - Highly Descriptive
 - Generic
- Registrable
↓
Requires Showing Distinctiveness
↓
Not Registrable

Foley & Lardner 24

Likelihood of Confusion

- Emphasis on Likelihood
 - actual confusion not required
- Marks Compared in Entireties
 - overall commercial impression
- Reasonable Consumers of the Particular Goods
 - who is the market
 - consumer sophistication
 - cost of goods
 - nature of product/care in making purchase

Foley & Lardner 25

Trademark Registers

- Principal Register
 - Mark meets all statutory requirements
 - Distinctive
 - Not geographically descriptive
 - Not scandalous
- Supplemental Register
 - Any marks distinguishing goods and services
 - May be descriptive, but must still distinguish
 - Not confusingly similar to another's mark

Foley & Lardner 26

Supplemental Register - Benefits

- Sue in Federal Court - even w/o diversity
- Possible foreign registration
- Possible treble damages from infringers
- Defer innocent infringement by discovery in TM search
- Avoids registration of confusingly similar marks as a basis of rejection
- After 5 years, principal register possible
- Use of ®

Foley & Lardner 27

Principal Register - Benefits

- Supplemental register benefits
- Statutory constructive notice of ownership claim
- Presumption of validity
- Presumption of ownership
- Presumption of exclusive rights
- Right to prevent importance of goods with same marks
- Incontestability after 5 years of registration

Foley & Lardner 28

Relevant Markings

- TM - use on goods, packaging, advertising, etc.
 - indicates user considers mark to be its trademark
- SM - use on advertising, brochures, etc.
 - indicates user considers mark to be its service mark

Foley & Lardner 29

Relevant Markings (Cont'd)

- ® - use to indicate federal registration obtained
- © - different type of protection
 - used to indicate material may not be copied without owner's permission
 - need not obtain federal copyright registration to use ©

Foley & Lardner 30

Technology Transfer

- Assignment
- License
 - exclusive
 - sole
 - non-exclusive
- Joint Ventures

Foley & Lardner 31

Typical License Provisions

- Limited only by imagination, tax, antitrust and practical considerations
- Scope of licensed subject matter
 - patents, copyrights, trademarks, know-how, trade secrets, etc.
- Improvements

Foley & Lardner 32

Typical License Provisions (Cont'd)

- Compensation
 - Lump sum payments
 - Royalties (gross v. net sales)
 - Access to records/verification
 - Minimum royalties/best efforts
- Duration and geographic areas
- Termination
- Cross licensing

Foley & Lardner 33

PART II

CONDUCTING INTELLECTUAL PROPERTY DUE DILIGENCE WHEN TRANSFERRING A BUSINESS

Foley & Lardner 34

IP Due Diligence Steps

1. Identify Products and Services
2. Identify Corresponding Intellectual Property
3. Prioritize (if necessary)
4. Analyze State of Relevant Industry
5. Determine Scope of Protection Provided by IP Assets

Foley & Lardner 35

IP Due Diligence Steps (Cont'd)

6. Verify "Exploitability" of IP Assets
7. Conduct Non-Infringement Investigation
8. Review Warranties and Indemnities
9. Review Any Other Considerations
10. Establish a Value

Foley & Lardner 36

Step 1: Identify Products and Service

- Comprehensive List For Each Business Entity
- Primary Product Lines
- Secondary Product Lines
- Services related to Product Lines, e.g. Distribution and Sales
- Buyer's Future Plans
 - product lines to be expanded
 - product lines to be transferred again
- Product & Service Lines Not Being Transferred

Foley & Lardner 37

Step 2: Identify Corresponding Intellectual Property

For each product/service line and its associated advertising, etc. consider:

- Statutory Intellectual Property
 - Patents
 - Registered Trademarks
 - Registered Copyrights

Foley & Lardner 38

Step 2: Identify Corresponding Intellectual Property (Cont'd)

- Common Law Intellectual Property
 - Unregistered TMs
 - Unregistered copyrights
 - Trade secrets
- Contractual Intellectual Property
 - Licenses in from others
 - License out to others

Foley & Lardner 39

Step 2: Identify Corresponding Intellectual Property (Cont'd)

Prepare Matrix for Each Product Line

INTELLECTUAL PROPERTY

Product Line	Tech	Trade	Patents	Copy- rights	Trade- marks	Licenses
	Know- How	Secrets				
A	X		X			
B		X				
C				X		
D					X	X

Foley & Lardner 40

Step 3: Prioritize Analysis

- Coordinate review with Buyer's business plans/goals
 - blocking others' competitiveness
 - income generation
- Mature Technologies
 - distinguishing features
 - goodwill

Foley & Lardner 41

Step 3: Prioritize Analysis (Cont'd)

- Evolving technologies
 - trade secrets v. patents
 - design arounds
 - pace of change
- Market Forces
 - brand loyalty
 - product line positioning

Foley & Lardner 42

Step 4: Analyze State of Industry

- Identify significant competitors
- Assess competition's intellectual properties
 - Assignment search of patents, copyrights, TMs
 - Foreign Art reviews
- State of art search
- Seller's information
 - prior art searches
 - product clearance opinions
 - trademark reports

Foley & Lardner 43

Step 5: Determine Scope of Protection

Technical Know-How

- non-proprietary
- recorded / unrecorded information

Trade Secrets

- procedures to safeguard and documentation thereof
- employees with information (need to know)
- non-competition provisions with employees
- non-disclosure agreements with others
- reverse engineering

Foley & Lardner 44

Step 5: Determine Scope of Protection (Cont'd)

Patents

- claim analysis (broad v. narrow)
- prosecution history analysis
- statutory compliance, e.g. enabling written description
- best mode disclosure (surrounding circumstances)
- range of equivalents

Foley & Lardner 45

Step 5: Determine Scope of Protection (Cont'd)

Copyright

- published/unpublished works
- unregistered works
 - no statutory damages; must provide damages
- registered works
 - prima facie evidence of validity after 5 years
 - prerequisite for filing suit
 - lasts author's life + 70 years

Foley & Lardner 46

Step 5: Determine Scope of Protection (Cont'd)

- works for hire/commissioned works
 - lesser of 95 years from publication or 120 years from creation
 - categories
- works by employees - employer as statutory author

Foley & Lardner 47

Step 5: Determine Scope of Protection (Cont'd)

Trademarks

- Unregistered
 - use/goodwill
 - risky, especially if not cleared
- Registered
 - goods and services description
 - independent search for 3rd party uses
 - Principal v. Supplemental Register (Presumptions)
 - distinctiveness v. descriptiveness
 - secondary meaning

Foley & Lardner 48

Step 5: Determine Scope of Protection (Cont'd)

Licenses from Others

- Transferability
 - needed to exploit other assets
 - avoid TM “license in gross”
 - determine status of consent to transfer
- Ability to sub-license

Foley & Lardner 49

Step 6: Verify Exploitability

Ownership Verification - Patents and Trademarks

- Patent and Trademark assignment search in PTO
 - void against subsequent purchaser w/o notice unless recorded w/in 3 months or before lien
- Patents and reissue patents - records secret for pending applications, unless published appl.
- Each inventor named in patent
 - non-assigning inventors can exploit w/o accounting to others

Foley & Lardner 50

Step 6: Verify Exploitability (Cont'd)

- TM registrations and applications
 - cannot assign Intent to Use applications before Statement of Use except to a successor of on-going business.

Foley & Lardner 51

Step 6: Verify Exploitability (Cont'd)

Ownership Verification - Copyrights

- Copyright assignment search in Copyright Office
 - Priority to 1st executed transfer if recorded w/in one month (2 months if outside U.S.)
 - else, later transfer prevails if recorded first, for consideration (including promise to pay royalties) and w/o notice

Foley & Lardner 52

Step 6: Verify Exploitability (Cont'd)

- non-exclusive license, whether or not recorded, prevails if:
 - a) evidenced by written instrument and
 - b) taken before execution of transfer

or

- taken before recordation of transfer
w/o notice and in good faith

Foley & Lardner 53

Step 6: Verify Exploitability (Cont'd)

Ownership Verification - Trade Secrets

- Trade Secrets
 - inquire re: source of trade secret info
 - employee developed
 - employment contracts

Foley & Lardner 54

Step 6: Verify Exploitability (Cont'd)

Validity Assessment - Trade Secrets

- Security procedures
- Info dissemination w/in Seller's business
- Difficulty of others developing
- Importance to Seller's business and others
- Unknown in Industry

Foley & Lardner 55

Step 6: Verify Exploitability (Cont'd)

Validity Assessment - Patents

- Detailed Analysis of Claims
- Prior Art Search
- Compliance with Duty of Disclosure
- Maintenance Fee Payments

Foley & Lardner 56

Step 6: Verify Exploitability (Cont'd)

Validity - Trademarks

- Continuous use in conjunction with goods/services
- Declarations re: use
- Renewals
- Licenses not in gross - quality control specified

Validity - Copyrights

- Subject matter
 - slogans
 - no subjective standard

Foley & Lardner 57

Step 6: Verify Exploitability (Cont'd)

Litigation Review - Trade Secrets

- Defenses to infringement charge
- Injunctions
- Information becoming known to public
- Threatened actions

Foley & Lardner 58

Step 6: Verify Exploitability (Cont'd)

Litigation Review - Patents

- Defenses to infringement; declaratory judgment actions
- Invalidity judgments
- Settlements - Cloud on validity
- Re-examinations
- Reissues
- Interference proceedings
- Latches
- Inequitable Conduct Evidence/Inquiries

Foley & Lardner 59

Step 6: Verify Exploitability (Cont'd)

Litigation Review - Trademarks

- Oppositions
- Cancellation Proceedings
- Court Proceedings

Litigation Review - Copyrights

- Court Proceedings

Foley & Lardner 60

Step 6: Verify Exploitability (Cont'd)

Licensing Review

- Exclusive licenses granted by Seller
 - may preclude buyer's use of asset
- Territory licensed
- Income Generated
 - paid up royalty
 - income stream

Foley & Lardner 61

Step 7: Conduct Non- Infringement Investigation

Technical Know-How

- Non-proprietary

Trade Secrets

- Development Documentation

Patents

- Search Patents in Art Related to Product Lines
- Claim by Claim Analysis of Each Patent Found
- Review Seller's Prior Art Searches and Clearances

Foley & Lardner 62

Step 7: Conduct Non-Infringement Investigation (Cont'd)

Copyrights

- Documentation Review, e.g., software development

Trademarks

- Search Marks
- Incontestable Registrations
- Possible Petitions to Cancel
- Buyer's Expansion Plan
- Public Perception

Foley & Lardner 63

Step 8: Review Warranties and Indemnifications

	Buyer's Goal	Seller's Goal	Common Compromises
Infringement	<ul style="list-style-type: none"> • Non-infringement of all IP of other's • Indemnification 	<ul style="list-style-type: none"> • No Warranty • No Indemnification 	<ul style="list-style-type: none"> i) Seller not aware of any ii) Seller disclosed knowledge of all potential infringements iii) Seller will cooperate in defending suits relating to seller's product line

Foley & Lardner 64

Step 8: Review Warranties and Indemnifications (Cont'd)

	Buyer's Goal	Seller's Goal	Common Compromises
Non-Compete	<ul style="list-style-type: none"> • All Related Product Lines 	<ul style="list-style-type: none"> • No Warranty 	Reasonable Time, Place, Subject Matter Restrictions

Foley & Lardner 65

Step 8: Review Warranties and Indemnifications (Cont'd)

	Buyer's Goal	Seller's Goal	Common Compromises
Ownership	<ul style="list-style-type: none"> • All right, title, interest in IP wrt product line • No liens encumbrances • Patents, pending applications <ul style="list-style-type: none"> • Continuing applications • TMs and applications • Copyrights 	<ul style="list-style-type: none"> • No Warranty • Warranty to extent in recorded assignment documents 	<ul style="list-style-type: none"> i) Seller will cooperate in litigation ii) Seller will execute documents necessary to perfect title iii) Seller has disclosed all relevant circumstances

Foley & Lardner 66

Step 8: Review Warranties and Indemnifications (Cont'd)

	Buyer's Goal	Seller's Goal	Common Compromises
Validity	• Valid Against all Invalidity Claims	• No Warranty	i) Seller not aware of invalidating art ii) Seller not aware of any inequitable conduct iii) Seller will cooperate in defending validity

Foley & Lardner 67

Step 9: Review Other Considerations

- Composition and Character of Industry
 - Many/few competitors
 - IP intensive
 - Litigiousness
- Need for IP asset
 - basic technology
 - blocking technology
 - technological pace
- Other IP forms
 - Trade Dress

Foley & Lardner 68

Step 10: Establishing a Value

- Industry Practices
 - expert consultation
- Relative Bargaining Position
- Non-Competition Agreements
 - Consulting from Seller

Foley & Lardner 69

Other Factors

- Rights in Pending Applications
- Rights to File Additional Applications
- Foreign Rights
- Trade Dress

Foley & Lardner 70