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COMMENTARY

Make Sure You Own Your Intellectual Property

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Each day there is more information available on the Internet, which also means there is more intellectual property you might accidently infringe or others might steal from you. It is critical that you understand what IP is so that you can properly protect it.

Just as a little knowledge can be dangerous, there are a number of myths about what IP is and is not. This article will review IP as well as how it is created and should be protected.

Defining Intellectual Property

There are three federal protections for intellectual property in the United States: patents, copyrights and trademarks. The fourth type of IP is trade secrets, which are protected by state laws.

While this article will be focused on U.S. IP law, other countries regulate IP and there are number of international treaties that apply, including the Paris Convention and Patent Cooperation Treaty. So, keep in mind the actual laws that will apply will depend upon where the IP is created and managed.

Patents

In the simplest form, patents are inventions that are useful, novel and not obvious to a person with ordinary skill in the relevant technology. However, discoveries cannot be laws of nature, mental processes, ideas, natural formulas, natural phenomena or methods of calculation. In the U.S., the authority to grant patents comes from our Constitution, which gives the inventor a monopoly on the invention. The same constitutional provision also provides the author of copyrighted materials a monopoly on making copies.

Patents and trademarks in the U.S. are regulated by the Patent and Trademark Office. Currently, after a patent is issued by the PTO, it is protected for 20 years from its filing date. Prior to June 8, 1995, the term was 17 years from registration. Often, patent holders will develop add-on features and related patents to extend the real life of the patent.

Patent holders can license others to use their patents, preclude others from using the patents or ignore infringers as they wish. Different businesses have different strategies about how best to use their patents.

The process to secure a patent is relatively complicated and requires someone licensed before the PTO to pursue the application (referred to as prosecuting the patent). Normally, if someone wants to get a patent, the first step is to search existing patents in the general area, and, if none exists, an application can be made relatively easily. However, if patents do exist in the area, an application for an invention is normally reduced in scope and limited. Currently it takes about three years to get a patent, but a large percentage of applications are rejected.

Copyrights

Under the 1976 Copyright Act, the moment the author affixes his work to a tangible medium, it is copyrighted. So, as soon as this article was written, it became copyrighted. In fact, it was being copyrighted as each key on the computer was pressed. While items become copyrighted the moment they are created, they are considered unpublished until made available through some medium. No registration is required with the Copyright Office (which is part of the U.S. Library of Congress) until someone wants to sue for infringement. However, if a copyrighted work is filed within 90 days of first publication, the author is entitled to statutory damages of between $5,000 to $150,000 for infringement. Otherwise the author is only entitled to actual damages for infringement, and proving these types of damages varies widely.

The copyright laws preclude others from making copies, but if a derivative version of a copyright is created, whether or not it is found to be an infringement will depend on how much of the original copyrighted work was found in the new work.

Computer software (object code) and documentation are often protected by copyright laws. While the source code

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may be protected by trade secrets (see discussion below), and the manifestation of the process created by the software may be protected by patents, it is imperative that owners of IP clearly understand what they have created and exactly which portions are protected by which methods.

Trademarks

A trademark is designed to "protect words, names, symbols sounds, or colors that distinguish goods and services from those manufactured or sold by others and to indicate the source of the goods," according to PTO regulations. The related "service mark" is for services rather than products.

As indicated above, the PTO is responsible for federal trademarks, but each state in. allows for state registrations as well. And, to make things more confusing, there is also a common-law trademark. Common-law trademarks provide for limited rights to use a trademark (or service mark) in the local geographic area where the trademark is used (for example, a common-law trademark in Chicago would be protected in that area, even if the same name was used in Houston).

If a trademark owner does not pursue infringers, the owners can lose their ownership, so they must be vigilant about infringements. A number of courts have ruled against owners who did not challenge trademark infringers and have subsequently lost their marks.

Trade Secrets

A trade secret is any formula, pattern or process used in one's business that may give the user an advantage over its competitors. As stated above, trade secrets are protected by state law, and a number of states even subscribe to the Uniform Trade Secrets Act.

To create a trade secret, there must be a written agreement between the owner and companies (and individuals) that have access to the trade secrets. Additionally, trade secrets must be marked with some indicia of secrecy like "secret," "confidential," "proprietary" or the like.

Unlike copyrights rights where the owner has a monopoly on making copies, a trade secret owner can preclude someone from using the underlying idea. Accordingly, a written agreement with the limits and restrictions are critical.

Employment Agreements

Generally in the U.S., whether or not there is an employment agreement, the IP developed by an employee during the normal course of employment is owned by the employer, except for patents, which are owned by the inventor.

If employers want employees to assign ownership of patents to the employers, they must have a written agreement requiring the employee to assign the patents. Otherwise, having an employment agreement is best since it makes clear what IP is owned by the employer and employee.

For IP developed outside the scope of employment after hours and during weekends, generally the IP is owned by the employee, unless the employment agreement says differently. Many companies that develop IP insist that employees sign employment agreements that require assignment of all IP to the employer for all work done by the employee 24/7/365.

The laws vary outside the U.S. regarding whether the employer or employee owns the IP created by the employee. Also, generally, IP laws apply in the country in which the IP is actually developed. Companies that rely on IP development in countries other than the U.S. should determine which laws apply to the IP they think they own.

Most of the time, theft of IP is done by employees who are misdirected for some reason or other, whether they are being paid to steal the IP or are just malicious. So, it is important for employers to properly protect the IP within their organizations.

Independent Contractors

Intellectual property developed by independent contractors is owned by the contractor unless there is some written agreement to the contrary. If a company hires an independent contractor to create IP, unless the contract specifically requires assignment of the IP to the company when it is created, there is no obligation for the contractor to transfer any ownership.

It is essential that companies clarify their expectations about the ownership of IP, and, if an independent contractor hires other independent contractors (subcontractors), the express plans of IP ownership should be spelled out in specific detail.

Like employees, independent contractors pose a threat to IP, so it is important to keep a watchful eye on contractors and how they manage the IP with which they work and create.

License Agreements

Generally, a license agreement for IP spells out the rights and limits of the licensee granted by the licensor. So, if the licensor wants to restrict and limit what licensees can do with IP, the place to specify restrictions is in the license agreement. Courts will enforce license agreements that are clear about what limits apply to IP.

IP license agreements need to be very specific about the IP that is licensed to the licensee because lack of clarity in the license makes enforceability in court very difficult. Likewise, to best protect IP, there should be contractual requirements that the licensee's employees and independent contractors must sign agreements to protect the licensor's IP.

One of the most complicated provisions in licenses are indemnifications, which are contract promises specifying that if there is a claim of infringement, the licensor will hire lawyers to defend against infringement claims. If it turns out that the licensor's IP infringes that of another, the licensor may be obligated to replace the IP with similar technology and/or refund some or all of the license fee.

Internet Security

The Internet is a great communications technology tool that has transformed cultures around the world. However, at the same time, there are characteristics about the Internet that make IP protection much more difficult. Before the proliferation of the Internet, business and government relied on private networks, and so the only individuals who had access were authorized. Today, access to various computer systems that are attached to the Internet make systems more vulnerable, meaning Internet networks need strong protection with firewall hardware and software.

If companies do not properly protect their Internet access, they run the risk that bad players can steal assets, including their IP and IP that is licensed to them.

Webmail (AOL, Gmail and Hotmail)

Internet-based e-mail poses a major threat to the protection of IP because employees using the Internet at the office can easily attach IP to e-mails sent through their webmail accounts. Even though this may violate company policies, there are reports indicating this is a common practice for employees who may want to work on company business from home or, worse, are intentionally stealing IP. Webmail systems do not have a requirement to protect IP that employees may choose to store in their webmail. An additional concern is that employers have no control over who their employees let access their webmail accounts.

Of course, if an employee wants to steal IP and send the IP to a competitor using a webmail service, it is easy to pass it along. The webmail transfer of IP would not show up in the employer's e-mail system.

E-mail Ownership

Another issue that makes e-mail a more complicated vulnerability for loss of IP is that outside the U.S., particularly in Europe and Canada, e-mails are private to the employee. Thus, employees in these countries who send IP from their employer's networks to webmail can claim that the employer had no right to access their company e-mail records. What really complicates cross-border e-mail records is determining what law(s) applies to e-mails that originate in the U.S. and go to Europe or Canada.

Conclusions

Now is the best time to get a handle on the IP you own and determine whether you have contracts in place to properly protect it. IP will only be more critical in the future with our global economy, the proliferation of the Internet and more broadband use available around the world. Businesses must develop strategies for protecting their investments in IP, and this article should provide a baseline of information to assist you.

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