ACC Association of Corporate Counsel

*By in-house counsel, for in-house counsel.*SM

InfoPAK[SM]

Intellectual Property Primer: Patents, Trademarks, Copyrights, and Trade Secrets– An Introduction to Intellectual Property for In-House Counsel

Third Edition

Sponsored by:

DICKSTEINSHAPIROLLP

Association of Corporate Counsel
1025 Connecticut Avenue, NW, Suite 200
Washington, DC 20036
tel 202.293.4103, **fax** 202.293.4701
www.acc.com

Intellectual Property Primer: Patents, Trademarks, Copyrights, and Trade Secrets– An Introduction to Intellectual Property for In-House Counsel

Third Edition

July 2008

Provided by the Association of Corporate Counsel
1025 Connecticut Avenue, Suite 200
Washington, DC 20036
Tel. 202.293.4103
Fax 202.293.4701
www.acc.com

This InfoPAK[SM] is designed to provide corporate counsel with a general overview of intellectual property and to suggest useful practices for the handling of intellectual property issues in the corporate setting. This information should not be construed as legal advice or legal opinion on specific facts, or representative of the views of ACC or any of its lawyers, unless so stated. This is not intended as a definitive statement on the subject but a tool, providing practical information for the reader. We hope that you find this material useful. Thank you for contacting the Association of Corporate Counsel.

This material was prepared, compiled, and updated by the Intellectual Property attorneys of Dickstein Shapiro LLP (*www.dicksteinshapiro.com*), edited by Kenneth W. Brothers (First, Second, and Third Editions) and Megan Woodworth (Third Edition), at the direction of the Association of Corporate Counsel.

Contents

I. Kinds of Intellectual Property Protection

A. Introduction

"Intellectual property" is an omnibus term for a group of intangible personal property rights. While primarily referring to patents, copyrights, trademarks, and trade secrets, the term "intellectual property" includes other rights, such as trade dress, mask works, unfair competition, and publicity rights. The particular kinds of intellectual property that are important to your company will depend on the nature of your company's products and services, and on the nature of the marketplace in which your company competes. Often, a product or service may be protected simultaneously by more than one kind of intellectual property. For example, computer software products may be protected by:

- Patents, for the way the software functions (The steps carried out by the software may be protected by a patent.);
- Trademarks, for the names used with the software (POWERPOINT® and QUICKEN® are well-known software brands.);
- Copyrights, for lines of computer program code and screen displays;
- Trade secrets, for the confidential portions of the program code.

For some companies, most of their value may reside in their intellectual property. The net worth of a software company, for instance, may consist primarily of its copyrights on its products. By contrast, the machines for making production copies of the software products, the product media, such as CD ROMs, and the packaging materials, may be worth relatively little. Similarly, a technology company may not make any products at all but rather profit by transferring, by sale or license, its intellectual property to others.

A summary chart is provided at the end of this section that compares attributes and the pros and cons of some kinds of intellectual property.

This InfoPAK℠ is designed to provide corporate counsel a general overview of intellectual property and to suggest useful practices for the handling of intellectual property issues in the corporate setting. In this chapter, we provide an overview of individual areas and explain how corporate counsel can ascertain what property their corporation possesses.

B. Patents

Broadly defined, inventions are any discovered product, composition, or method, whether or not patentable. When inventions go beyond an abstract idea and meet certain requirements, the invention becomes eligible for protection under the patent law. Under U.S. patent law, a patent gives the holder the right

to exclude others from making, using, selling, offering for sale, or importing the invention during the patent term.[1] Then, after the patent expires, the invention may be used freely by anyone. It is important to recognize a patent does not give its owner the right to practice the invention itself. That right depends on the absence of others having an applicable right to exclude (patents). Thus, use of a patentable invention can be blocked by other patents.

There are a number of different types of patents:

- "Utility Patents" are the most common type. They are available for any "new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof."[2] When referring simply to "patents," one is usually referring to utility patents. Utility patents have a term commencing at grant (issuance) and ending 20 years after the application filing date. Under certain circumstances, the expiration can be extended beyond the 20th anniversary.
- "Design Patents" cover the look of the ornamental features of a product.[3] Unlike utility patents, design patents do not protect functional features. For example, a design patent may be used to protect the stylistic shape of a product, such as a stapler, but the stapler's slot which accepts paper to be stapled is functional and a design patent affords no protection for this feature. "If the patented design is primarily functional rather than ornamental, [a design] patent is invalid"[4]; but the functional feature could be the subject of a utility patent. The term of a design patent is 14 years measured from the date of grant.
- Plants may be protected: (1) by utility patents, (2) by plant patents, and (3) through the Plant Variety Protection Act.[5] "Plant Patents" protect distinct and new varieties of plants.[6] While originally limited to asexually reproduced plants, today, sexually reproduced plants may also be patented. A plant patent gives its owner the right to exclude others from grant until the 20th anniversary of the application's filing.[7] The Department of Agriculture issues a Certificate of Plant Variety Protection for original plants reproduced sexually. The Certificate affords the right for 18 years to exclude others from selling, offering for sale, reproducing, importing, or exporting the variety, or using the variety in producing a hybrid or different variety.

There are other names in use for patents that are not technically different types, but are associated with certain attributes:

- "Reexamination" and "reissue" patents are patents that the U.S. Patent and Trademark Office (PTO) has granted already and then reconsidered under certain circumstances, as discussed further below.[8]
- "Process patents" are utility patents in which the claimed invention is a process or method as opposed to an apparatus or product.
- "Business method patents" are utility patents that claim the processes involved in conducting business, that is, methods of conducting commercial activities as distinguished from scientific activities.

- "Paper patents" are patents where the inventions have not yet been put in use and exist only on paper. A patent can be obtained and maintained even if the invention is not actually "reduced to practice," i.e., actually made.
- "Improvement patents" are patents on modifications or additions to an earlier invention.
- "Pioneer patents" are patents issued on a very significant technological advance.
- "Submarine patents" are patents that issue from applications that have been pending for long periods of time, sometimes twenty years or more, without any public knowledge of their existence. The elimination of submarine patents was one rationale for adopting publication of patent applications and changing the U.S. patent term from "17 years from grant" to "20 years from filing."

To secure a patent, the inventor submits an application for examination in the PTO. The application must sufficiently describe the invention so that an ordinarily skilled person in the relevant art can make and use it. The scope of the invention for which exclusive rights are sought is defined in one or more numbered paragraphs, called "claims," at the end of the application text. A PTO examiner will review the application to determine whether the invention as presented is patentable.

To be patentable, the invention must be*:*

- New; this is also called the novelty requirement. The invention must not be already in the "prior art," i.e., publicly known or used, before the first filing of an application for the patent. The novelty requirement is strictly construed – there is novelty if any aspect of the claim is new, or even if all of the parts of the invention are old but have not been combined as recited in the patent claim.
- Useful; this requirement generally means that the invention has a practical application.
- Nonobvious; even if the invention is not shown by a single prior art reference and is therefore novel, it is not patentable if, at the time of invention, it would have been obvious to a person with ordinary skill in the relevant art to make the modifications that result in what is being claimed, such as by combining the teachings of two or more prior art references to arrive at the combination of parts of the patent claim.[9]

U.S. patent law requires that the applicant be the original and true inventor. So, it is important to file patent applications in the name of the individual(s). Invention has two parts – a mental act of conception in sufficient detail such that a person having ordinary skill in the art may practice the invention without undue experimentation, and a physical act of actually practicing the invention ("reducing the invention to practice") or constructively doing so by filing a patent application. Two or more persons may jointly conceive of an invention, in

which case all of the inventors must apply for the patent. But the joint inventors do not have to make their respective contribution together, or in the same place, or at the same time. In most instances the inventor(s) record a document transferring ownership of the invention and the patent application to a company at the same time the application is filed.

The PTO examiner will issue a report (commonly referred to as an "office action") to the patent applicant, setting forth the results of the examination. Typically, the PTO examiner will find reasons to reject all of the patent claims. This is a notable low point in the application process for the applicant. However, the applicant may respond with arguments refuting the examiner's findings and changing the scope of the claims if necessary. Ultimately, upon agreement between the PTO and the inventor on the scope of the patentable invention, a patent is granted.

The examination process briefly described above is carried out on "regular" patent applications. Prior to filing a regular utility application, it may be desirable to file a "provisional" patent application to secure what is an earlier "effective" filing date for the subject matter included in the later regular application. The requirements for a provisional application are less rigorous than those for a regular application. In order to be proper, a provisional patent application requires only a description of the invention sufficient to enable a skilled person to practice it, an identification of at least one of the inventors, and the prescribed fee. The description does not have to include the abstract or claims found in regular applications, but they may be included if desired. The inventor's oath required by the patent statute is not required. However, provisional patent applications are not examined, automatically expire after one year, and cannot be renewed. So, in order to secure an issued utility patent having the priority (filing date) of the provisional, a regular application must either replace the provisional or request that the provisional application be "converted" to a regular application within that one-year period. Advantageously, the time before replacement or conversion of the provisional application does not count towards the 20-year term of the utility patent.

As mentioned above, once a patent has been granted, the PTO can still consider changes. This is primarily done through Reissue, Reexamination, and Certificates of Correction.

- Certificates of Correction are usually used to fix obvious minor errors. These can be PTO errors in printing the patent, or applicant errors, such as obvious transcription typos. More serious errors can be corrected by reissue.
- Reexamination is a procedure for the PTO to consider substantial new issues of patentability based on printed publications and prior art patents. Any person, including the patent owner, can request reexamination.[10] The existence of an error in the original patent is not required. The procedure makes a record of the PTO's judgment about the new issues – changes in the patent

may or may not be made.

- Reissue is a procedure for correcting an error in the issued patent. For example, the patentee may seek a reissue on the basis that the claims are too broad or too narrow.[11] However, the application for reissue must be filed within two years of the patent grant date in order to obtain broader claims. There is no time limit if narrower claims are sought.

Because the PTO is usually a more favorable and economical forum, patentees will often use reexamination and reissue to have prior art and other issues considered by the PTO prior to asserting the patent against an infringer in court.

Certificates of Correction are not substantive changes in the patent. Thus, they are effective as of the grant date, and are considered part of, the originally issued patent. In contrast, any significant substantive changes in reexamination certificates and reissue patents are effective upon issuance, and may be subject to rights which came into existence after the original patent grant date.

Other Methods of Protection:

- SIR—The Statutory Invention Registration: A SIR is a utility patent application that is published by the PTO without examination.[12] The sole purpose of a SIR is defensive. It does not afford the owner any rights. The object and effect of a SIR is to create prior art that may prevent competitors from patenting the same subject matter.

C. Trademarks/Trade Names/Trade Dress

A trademark is any word, name, symbol, or device, or any combination of these, which identifies goods in a way to distinguish them from the goods of others. They can be protected under federal law, state law, or common law. Trade names and trade dress exist on their own but may also function as a form of trademark. Under the common law, use of a mark provides protection commensurate in scope to the extent of the mark's use. Federal registration of the mark on the Principal or Supplemental Register affords additional rights. Registration on the Principal Register entitles the owner to use the mark and to exclude others throughout the United States from using it if such use would likely lead to confusion by the public.[13] Registration on the Supplemental Register is for marks that are capable of being distinctive but have not yet become so and afford no exclusive rights, but preclude others from obtaining a registration. The symbol ® is used to give notice that a trademark is federally registered. The symbols ™ and ℠ are used to give notice that a trademark or service mark is considered by its owner to function as a mark to indicate the source of the goods or services. State trademark registrations may also be obtained, but they typically provide no more protection than is already available to the trademark owner under common law.

There are various types of "marks":

- A "trademark" is "any word, name, symbol, or device, or any combination thereof" used by a company to identify its products and distinguish them from the products of others.[14] It is usually a word, short phrase, or slogan. However, a product's shape or its packaging, or even a sound, can be a trademark.
- A "service mark" is a "word, name, symbol, or device, or any combination thereof used . . . to identify and distinguish the services of one person . . . from the services of others."[15] The difference between a trademark and a service mark is that a trademark relates to goods and a service mark relates to services.
- "Collective marks" are trademarks and service marks "used by the members of a cooperative, an association, or other collective group or organization. . . and includes marks [known as collective membership marks] indicating membership in a union, an association, or other organization."[16] A collective mark is used by a member of a group to either distinguish its goods or services from those of a non-member, or to indicate membership in the group.
- A "certification mark" is a mark used "to certify regional or other origin, material, mode of manufacture, quality, accuracy, or other characteristics of such person's goods or services or that the work or labor on the goods or services was performed by members of a union or other organization."[17] For instance, the mark "UL" is a certification mark of Underwriters Laboratories, Inc. A company would apply it to merely indicate that its products have met certain UL standards.
- A "trade name" is a name used by a company to identify its business rather than its products.[18] A trade name symbolizes the reputation of a business as a whole. A trade name is protected by adopting it and using it as a corporate name or a "doing business as" or "dba."
- "Trade dress" is the total image or overall appearance of a product and can be protected under § 43(a) of the Lanham Act[19] or under common law. If the trade dress of a product is distinctive and nonfunctional, the Lanham Act prohibits others from unfairly competing by adopting a trade dress so similar as to confuse a consumer as to the product's origin.

D. Copyrights

Copyright law protects original works of authorship fixed in a tangible medium of expression from which they may be perceived, copied, or communicated. Works of authorship include books, music, artistry, sculpture, movies, drama, architecture, and computer software. To be protectable, the work must have originality and be the creation of an author. Where an employee creates a work within the scope of the employment, the employer is considered the author. Generally, the copyright in a work of authorship lasts for the author's life plus 70 years, or if the author is anonymous or a company, for the longer of 95 years from publication or 120 years from creation.[20] Only the manner of expression of an idea is protected by copyright, rather than the idea itself. Copyright protection arises automatically when an original work is fixed in a tangible medium of expression. No registration is necessary; however, registration affords additional rights, including the right to bring an infringement suit in federal court, and entitlement to statutory damages and attorneys' fees in certain circumstances. Registrations are generally classified according to the nature of the work, including serial works, literary works, performing arts works, sound recordings, and visual arts works.

E. Trade Secrets

Trade secret law provides protection for any information that is not generally known or used by others and is of value to the owner, so long as the owner maintains it as a secret. It arises under state common law and state statutes such as the Uniform Trade Secrets Act and the recently enacted Economic Espionage Act of 1996 (18 U.S.C. §§ 1831-1839). There is usually significant value in the knowledge and experience of a company's employees relating to the company's business matters, such as technical designs, customer and vendor information, and manufacturing processes. Use of this information can yield improved product performance or manufacturing efficiencies that greatly enhance the company's competitiveness. Whether or not this information is protectable under the patent laws, by keeping the information confidential, the company can protect it under trade secret law. But trade secrets are protected only from misappropriation from the owner by others. Thus, if a person obtains the information by independent development, or from another source, the owner's trade secret rights will not preclude that person from using it or disclosing it.

F. Auditing Your Company's Existing IP Rights

When considering your company's intellectual property, a necessary first task is to identify what intellectual property exists. An IP audit should provide a good indication of which types of intellectual property are important in your business.

An intellectual property audit should seek to answer the following three ques-

tions:

- What is the economic and strategic value of the company's intellectual property? What is its character and scope?
- Does the company have clear title to the intellectual property?
- Does the company have potential liability for infringing intellectual property rights of others?

It is helpful to consider at the outset the general nature of the company. Different types of companies require a different focus during intellectual property audits. For example, a start-up computer software company may require a more in-depth investigation than a cement manufacturer. A newspaper publisher may require more investigation into copyright issues than a newsprint manufacturer. Companies that market consumer products may require a closer look into trademarks and design patents than other companies. Chemical and pharmaceutical companies may have important trade secrets and know-how.

The audit should develop lists of the intellectual property holdings:

- A list of all U.S. and foreign patents, patent applications, registered trademarks and service marks, trademark and service mark registration applications, registered and unregistered copyrights, and trade secrets currently held by the company, together with a brief description of the products, processes, or information covered thereby or subject thereto, and (where applicable) the corresponding grant and/or application filing dates;
- A list of all trade names, trademarks, and service marks used by the company but not registered, anywhere in the world, together with a brief description of the goods and services;
- A list of all know-how licenses, other technical assistance agreements, and confidentiality agreements.

The sources for this information include the company patent counsel, company marketing and engineering personnel, and independent outside sources. Also, a good source is the company's marketing materials, catalogs, web sites, and other related material. However, the best place to start is with the company personnel who have been dealing with the intellectual property. They can likely lead you to the in-house records as well as to any outside lawyers involved with the intellectual property. Important information may also be obtained through interviews with marketing, manufacturing, engineering, and R&D personnel. Talk to these people about the important aspects of the technology. Talk to them about the important trademarks, and the important computer software. And most importantly, talk to them about trade secrets. What are the crucial proprietary secret processes and techniques? Where are these written down? Are they just in the heads of some employees? What steps are actually taken to safeguard these key trade secrets? Who owns them?

Much of the information may reside on databases kept by current in-house

and outside lawyers. There are other public databases that can be searched and many are accessible online. The searches can be conducted in the names of the company, key personnel, and licensors. These include:

- The U.S. Patent and Trademark Office, http://www.uspto.gov. The USPTO has searchable online records for patent inventors and owners. It also has patent images and full text patent searching capability. There are also searchable online records for trademark registrations and applications.
- The U.S. Copyright Office, http://www.lcweb.loc.gov/copyright; the U.S. copyright registration records can be searched at this site.
- Thomson & Thomson, for trademark matters.
- ESpaceNet, http://www.espacenet.com; this is a useful site for finding worldwide patents.
- National IP Offices and the World Intellectual Property Organization ("WIPO"); these offices have records that can be searched, many of them online.
- Westlaw and/or Lexis searching can provide information regarding trademark applications, registrations, and patents granted in the U.S. and some foreign countries.
- State and Local Uniform Commercial Code ("UCC") records provide information regarding liens that may be recorded against the properties.

A tour of the company's plant or other facilities and a hands-on review of the company's products and processes may also be helpful. Personal inspection may reveal aspects of the products and processes that were not previously understood. With respect to trade secret protection, a plant visit might also reveal whether appropriate physical security precautions and safeguards are in place.

Other things you should do in the course of the audit include:

- Obtain patent maintenance and annuity fee records;
- For patents of special interest, identify all prior art in the company's files; later, the company may need to determine whether there are any validity issues that would justify further investigation;
- Review all products, marketing, promotional, and packaging materials of the company to determine if the materials and products have been properly marked with the company's patents;
- Review all products, marketing, promotional, and packaging materials of the company to determine if the company's trademarks have been used properly;
- Obtain copies of all U.S. and foreign trademark registrations and registration applications;
- Review trademark renewal records;
- Obtain results of any trademark searches conducted by or for the company;
- Identify any marks of the company that may have been abandoned;
- Identify all unregistered copyrights;
- Review know-how licenses, other technical assistance agreements, and confidentiality agreements;

- Check employee, consultant, and officer agreements to confirm obligations to assign U.S. and foreign rights;
- Determine whether appropriate confidentiality and non-compete agreements are in place, especially with respect to key personnel;
- Consider the impact of recent arrivals or departures of key personnel;
- Assess the company's existing procedures for identifying patentable inventions and designs, and for ensuring applications are timely filed. Determine whether the procedures are appropriate and effective under the circumstances;
- Evaluate the adequacy of hiring and exit interviews procedures. Review records for key personnel;
- Evaluate secrecy policies, including physical security, employed by the company;
- Evaluate security policies for computer software and electronic data;
- Evaluate the company's policy for identifying and protecting its copyrights;
- Evaluate the company's policy for avoiding infringement of patents, trademarks, or copyrights and obtain copyright clearance to protect against infringement claims;
- Determine whether the company has recorded ownership assignments (where applicable) for all U.S. and foreign patents and patent applications;
- Obtain copies of all licenses concerning patents, trademarks, copyrights, trade secrets, know-how, or other intellectual property or proprietary products, information, or processes, including expired licenses, held by the company, whether as licensor or licensee, together with a brief description of the products, processes, or information covered thereby or subject thereto;
- Review all records of audits conducted by or against the company pursuant to license agreements and/or research and development agreements;
- Identify procedures employed by the company for quality control monitoring of licensee use of trademarks;
- Obtain copies of all research and development contracts, agreements, and proposals between the company and any other company or companies;
- Determine whether the company has assigned or granted security interests against any patents or patent applications;
- Review all work-for-hire agreements and consultant contracts;
- Identify all assertions of infringement against the company, and all license offers received by the company, within the last six years, concerning patents, trademarks, copyrights, trade secrets, know-how, or other intellectual property, and the status of any negotiations or correspondence concerning such assertions or license offers;
- Obtain correspondence from the company accusing others of infringing its intellectual property and/or offering licenses under the company's intellectual property. consider whether any matters justify further negotiations and/or litigation;
- Identify any actual litigation involving the company's intellectual property. identify the current status of any ongoing proceedings or negotiations; ob-

tain copies of settlement agreements and releases;
- Obtain records of any U.S. opposition or cancellation proceedings, and foreign equivalent proceedings;
- Identify and review all covenants not to sue and indemnification agreements;
- Review press reports;
- Determine whether key technologies and other intellectual property rights have been transferred to one or more government agencies, e.g., via U.S. government purpose rights provisions;
- Assess the adequacy of insurance coverage against intellectual property infringement claims.

Comparison of Intellectual Property Types				
	Patents	Trademarks	Copyrights	Trade Secrets
Protects	Inventions	Designations of origin	Expressions of ideas	Information used in business
Applicable U.S. law	Federal, Statutory	Federal and State, Statutory and Common Law	Federal, Statutory	Federal and State, Statutory and Common Law
Registration	Required	Optional	Optional	No
Requirements	New, useful, and unobvious	First to use, distinctiveness	Originality	Confidential, used in business
Exclusive rights start	Upon issuance of the patent	Common law: upon use Registrations: upon issuance	Upon fixing in a tangible medium of expression	Upon creation
Term of exclusivity	20 years from filing, not renewable	Common law: as long as used Registrations: 10 years, renewable	Varies, but 70 years at a minimum	Indefinite if maintained secret
Pros	Strong rights. Covers independent developments by others	Some rights accrue automatically with use	Rights accrue automatically Inexpensive	Lasts forever, so long as kept secret Inexpensive
Cons	Must disclose Give up secrets Expensive to procure, maintain, and enforce	Need to police infringements or may lose rights	Easy to design around Does not cover independent developments by others	Hard to keep a secret Does not cover independent developments by others

II. Patents

A. Introduction

In Chapter I, we outlined the requirements for obtaining patents and the process for doing so. In this Chapter, we look at patents from the context of how general counsel should view this form of intellectual property as part of his or her responsibility and examine effective policies for an in-house patent program.

U.S. patents have gained strength and importance in recent years, particularly since the establishment of the Court of Appeals for the Federal Circuit in 1982. Because that court has exclusive jurisdiction over all appeals of patent cases from the U.S. district courts, the law has become more uniform and predictable, and forum shopping less effective.[21] Having more consistent rules permits patent attorneys to draft stronger patents. As a result, courts are upholding more patents. Moreover, damages in some patent infringement cases have reached the hundreds of millions of dollars. Litigation costs, win or lose, are extensive. In view of both the cost of litigation and potential damages, every company should consider taking steps both to strengthen its own patent portfolio and to decrease its risk of infringing another's patent when conducting the company's business. In establishing a new patent program or revising an established one, these steps should include determining what patent rights the company already has or may develop or acquire, reviewing the company's products for infringement of others' patent rights, and establishing policies and procedures focused on an appropriate treatment of inventions and patents for the company's business.

It is important to keep in mind when evaluating any program that a patent gives its owner only a right to exclude. Thus, the patent does not confer upon the owner any right to practice the patented invention, and practicing the invention could infringe another's patent. Rather the patent gives the owner the right to prevent others from practicing the patented invention.

The patent's exclusionary right can enable a company to legally block its competitors from adopting the company's patented innovations. Thus, a strong patent portfolio is essential for a company to maintain its competitive advantage in the marketplace. Moreover, the company can generate revenue by licensing others to practice its patented inventions. Also, a strong patent portfolio may be useful for cross-licensing for settling infringement disputes with its competitors.

B. Policies and Procedures for Protection of Company Patent Rights

In order to implement a patent program effectively, the company should adopt and follow appropriate policies and procedures for managing inventions. Generally, these policies and procedures will address the handling of inventions and patents from conception of the invention until the patent expiration. This should include establishment of an entity (usually a committee) responsible for overseeing employee invention agreements, handling disclosure of inventions outside the company, documentation of new developments, filing for and maintaining patents, and clearance of new products for patent infringement.

1. Employment Agreements

An important element of any patent program is the use of proper and adequate employment agreements. In the United States, absent an agreement otherwise, the owner of an invention is the inventor himself. Thus, with some important exceptions, a company employee who makes an invention, rather than the company, will own the invention and all of the patent rights associated with it, even if the employee uses company resources or facilities, or makes the invention while on the job. The exceptions include:

- Employed to invent; one exception is an employee who was employed to invent and is therefore obligated to transfer ownership to the company.[22] This could include research scientists and engineers whose specific job responsibilities are to develop new product ideas.[23] On the other hand, if the employee is hired in a general technical position, he may retain his inventions.
- Fiduciary duty; another exception is an employee who has a fiduciary duty to the company. This typically includes the officers of the company and may include other employees that are highly important to the company. An employee with a fiduciary duty may be required to transfer ownership of an invention to the company.
- Shop rights; under the "shop rights doctrine," a company whose employee makes an invention using the company's time or resources may have a non-exclusive, non-transferable, royalty-free license to use the invention under any patent that issues.[24] But the shop right is not an ownership right and does not entitle the company to participate in procurement, enforcement, or licensing of the patent. However, the shop right survives the employee's termination and may be transferred to a third-party along with the entire business.[25]

The best way for the company to secure rights to the inventions of its employee is to have the employee enter into an agreement to disclose the inventions to the company and to assign the rights in those inventions to the company. Such contracts are governed by state law. Typically, these agreements will obligate the employee to assign to the company all of his rights to any invention made in the course of employment or on his own time but in the company's area of interest.

In some circumstances, it may be reasonable to extend the agreement to inventions conceived during employment and reduced to practice after employment. It may even be appropriate to require assignment of inventions conceived shortly after termination of employment,[26] if necessary to protect a legitimate interest of the company. A court is more likely to uphold an employment agreement if it is reasonable.[27]

Reasonableness turns on many factors, including whether trade secrets of the company are involved and whether the agreement is unduly harsh and oppressive to the employee.[28] An invention assignment agreement is a contract and requires consideration. Most often, employment is the consideration and the agreement is signed prior to or upon starting work. If the invention agreement is being obtained later or is being changed for an existing employee, some additional consideration should be given to the employee or else the new agreement may not be enforceable. The consideration may be, for example, a raise, bonus, or promotion. Mere continued employment is not adequate consideration in some states. However, terminating the employee and then conditioning the rehire on signing the invention agreement should be adequate consideration.

As part of the invention agreement process, the employee should be advised of and agree to follow the company's policies and procedures on inventions. Upon termination of the employee, it is advisable to give the employee a copy of the signed invention agreement, remind the employee of his or her duties under it, and obtain a signed acknowledgement that he or she has received a copy.

2. Third-Party Agreements

Another element of the patent program should address the handling of the disclosure and development of inventions in dealings between the company and third parties. The company should review information to be disclosed and inventions developed by the company prior to disclosure to third parties to ensure that disclosure will not adversely impact patent rights. The company's patent policy should specify the involvement of in-house counsel at the onset of these types of dealings to establish an appropriate agreement prior to disclosure of technical or business information or development. An initial non-disclosure agreement may be established for initial dealings. A more extensive agreement, considering the nature of the business relationship, should be finalized prior to further dealings to address, for example, the parties' respective ownership of inventions and subsequent patents; responsibilities for procurement, maintenance, and enforcement of patents; and warranties and indemnification.

a) Disclosures

It is common to need to disclose technical or business information when dealing with vendors, customers, and business partners. Whenever this occurs, the disclosure should be covered by an agreement that adequately protects the company's interest in the information. The agreement can be relatively simple

in most situations. Some companies include a confidentiality agreement as part of a visitor sign-in procedure. When disclosing information to another, the agreement should require the recipient to keep the information confidential and to not use it for any unauthorized purpose for a sufficient period of time. Absent a confidentiality obligation, a disclosure may adversely affect the patentability of the invention. This adverse impact attaches immediately in some foreign countries.

The confidentiality period should preferably extend at least until the invention has been published by the company through a patent publication or otherwise. Typically, the authorized use of the information should be limited to the business purpose for which the company disclosed it. Further measures may be warranted in some cases to protect the information, such as a contractual obligation specific to the handling and return of the information, a limitation as to which employees are allowed access, or technical measures to prevent reverse engineering of any product samples that may be disclosed. Such disclosures may occur in either direction. When the company is receiving information, it may be desirable to minimize the company's obligations of confidentiality and nonuse of the other party's technical or business information.

b) Developments

If the business relationship will potentially result in patentable inventions, the company and the other party should agree on who will own the inventions, who will bear the expense of procuring patents, and what rights each will have to practice and enforce the patents. Absent any agreement, the employers would likely own the patent rights of their respective inventor employees, and each co-owner could use and/or license any resulting patent without accounting to the other owners. In some circumstances, the applicable law may result in a transfer of title or license rights to the other party, such as to the United States Government in the case of government contracts.

3. Prior Review of Company Publications

All publications by the company, whether marketing materials, advertisements, trade show handouts and displays, articles published by employees, SEC filings, Internet sites, product packaging and labeling, or otherwise, might contain a disclosure of an invention that could adversely affect the company's patent rights in the United States or a foreign country. Rules concerning disclosure vary by country. Therefore, the company should routinely review materials before publication. The company should adopt a formalized "approval to publish" procedure.

4. Invention Reporting

Once conceived, employees should report inventions to the company as soon as possible. If patent protection for the invention is not pursued timely, it could be

lost. The company should make the reporting of inventions not only the employee's responsibility, but also the responsibility of the first-line managers who are aware of the work being performed by the employees under them. Managers can be trained to recognize when an invention is sufficiently developed to report it to the company. The company can use the Sample Invention Disclosure Form found in Chapter XV as an invention record for gathering the information needed for the company to consider the merits of the invention and to highlight any potential bars to patentability.

5. R&D and Product Development Records

Researchers, engineers, product developers, and others who may make inventions should keep adequate records of their day-to-day work. This is important to document the conception of inventions and their reduction to practice. The U.S. patent system grants a patent to the first-to-invent. When there are multiple claims of inventorship of the same invention, the first-to-invent is entitled to the patent, provided (s)he did not abandon, suppress, or conceal the invention. When determining who was first-to-invent, the date of conception and the work done to diligently reduce the invention to practice are critical. Thus, inventor's work records must be sufficient to be accepted by a court or the Patent Office to prove date of conception and diligence in reducing the invention to practice. The records should be complete, made in the ordinary course of the work, and permanent.

Proper record keeping under the patent program should preferably include the following:

- Use of bound notebooks;
- Legible writing;
- Use of permanent dark ink;
- Timely entry of information into the book;
- Identification of errors with an explanation;
- Crossing out of errors, without obliterating or erasing corrections;
- Entering the information in chronological order;
- Not leaving blank space on a page;
- Using every page;
- Not allowing the employees to take the books away from the office;
- Signing and dating each page at the end of each day;
- Having each page promptly witnessed and dated, preferably by two people who understand the information but who are not inventors;
- Having the witnesses sign under the statement "Read and understood by."

Many records are now kept electronically. However, a problem with electronic records is that it is hard to verify with certainty when they were produced, that they have not been altered, and what "version" a witness reviewed. When using electronic records, the employee should print them out, sign and witness them,

and the company should preserve them in a manner resistant to alteration, e.g., on microfilm or scanned and burned on a CD. Keeping notebooks properly and timely requires work and discipline on the part of the employee. Some companies motivate their employees to keep these records by making it part of their performance appraisal and having a supervisor check the notebooks periodically.

6. New Product Review

New products should be assessed during the development phase for identification of potentially patentable subject matter and potential infringement issues. This is discussed in more detail below. The company should establish a system whereby patent counsel is made aware of potential new products and periodically reviews the progress of the product development.

7. Determining Whether to Apply for a Patent

The subject matter that may be patented has been interpreted to be "anything under the sun that is made by man."[29] The Supreme Court has identified what may not be patented as "laws of nature, natural phenomena, and abstract ideas."[30] In recent years, courts have recognized the scope of statutory subject matter to include "business methods." In *State Street Bank v. Signature Financial, Inc.*,[31] the court held that the PTO's long-standing practice of automatically rejecting any claim to a method of doing business did not properly reflect the law. Rather, the court held that claims drawn to a method of doing business should be treated like other process claims; for example, claims to a chemical process.[32] The patentability of business methods is currently under *en banc* review by the Federal Circuit in *In Re Bilski*, No. 2007-1130 (Fed. Cir. Feb. 15, 2008) (order granting en banc review)). However, it should be noted that business methods are not patentable in some foreign countries.

A company rarely files patents on every invention it makes. Rather, the company will weigh the costs and benefits of filing. The costs include not only the monetary expense, but also the mandatory disclosure of any confidential information resulting from publishing the invention. Factors to consider are set forth in the following sections.

a) Relation of the Invention to the Company Business

When evaluating potential patent protection, a company should first consider whether the invention relates to any company profit centers. For example, a software company may not desire to patent its employee's invention of a magnifying device for viewing a computer screen. Although the product may be of use to software programmers in developing the company's products, it may only be of minimal use to the company if it is not in the business of manufacturing or marketing such products. This ancillary invention may benefit the company by reducing development costs, but does not impact its profit center sufficiently

to justify pursuing a patent. Conversely, if the company were a computer monitor manufacturer, the invention would more closely relate to its profit center and would represent a potential new product. In this case, the company may decide to pursue patent protection to the extent necessary to preserve rights, pending the company's business decision whether to proceed with a new product incorporating the invention.

b) Competitive Advantage

Even if the invention relates directly to a company profit center, the company must consider whether the expected scope and timing of patent rights would provide a sufficient advantage in the marketplace to justify proceeding on this basis. Duplicating a public invention may be quite easy. A prime example is computer software that may embody thousands, or hundreds of thousands, of hours of labor to make a program or database that, once created, is readily duplicated in perfect copies with almost no effort. The rapid pace of technological development sometimes outpaces the time it takes to secure a patent. By the time the patent issues, the value of the technology may have waned. In such cases, the lead time the innovator enjoys over his competitor may be sufficient market protection, because by the time the competitor catches up, the technology and the market have moved on to something better. Also, if the expected patent scope is relatively narrow, competitors may be able to "design around" the patent easily. In these cases, the company may decide that its competitive advantage is greater by avoiding publication and keeping the invention a trade secret.

c) Defensive Benefit

One benefit of filing a patent application is that it can establish prior art against patent applications filed later, such as by the company's competitors. This helps prevent a competitor from making the same invention and patenting it, thereby precluding your company from using its own invention. This situation can occur when competitors are simultaneously seeking to solve the same technological problems to meet the needs of the marketplace and they invent the same solution to those problems. When that happens and more than one inventor files a patent application on the same invention, the PTO decides which one is entitled to the patent through a special process known as an "interference." The first applicant has advantages in that process.

The recently instituted publication system is also important for establishing defensive prior art. U.S. patent applications used to be secret and unpublished prior to the issue date, regardless of how long it took to prosecute the patent. Beginning with applications filed in November of 2000, however, United States patent applications are published 18 months (or less) after filing. However, applications whose filing predates November 2000 may still remain confidential, depending on actions taken by the applicant during prosecution. Also, if an applicant forswears seeking corresponding applications in other countries, the applicant may still prevent publication of a U.S. application. In addition to pub-

lishing through patent applications, companies can publish an invention with Statutory Invention Registration,[33] in trade journals, or other publications that make the invention generally available to the public on a provable date.

d) Technology Transfer

Another benefit of obtaining patents is the value that may be received from transferring the patent rights through sale or licensing. For some companies, the transfer of technology is a primary profit center. Patent rights may be licensed not only to generate revenue but also as an element of settling a conflict or dispute with a competitor.

8. Determining the Scope of Patentability

Once the company has decided that it desires to seek patent protection on the invention, it should conduct a patentability study to assess the likely scope of the exclusive rights of any resulting patent. This study should be conducted through an in-house or outside patent lawyer.[34] There is no legal requirement to conduct such a study and an application can be filed without one. However, a study will allow the company to evaluate whether the likely patent coverage is worth the expense before incurring the large part of the costs. The results can also be used to more properly focus the application on the patentable aspects of the invention.

The patent lawyer will conduct a search, usually in the records of the PTO, to locate prior art that may affect the patentability of the invention. If the invention is a design, the search will include the PTO's design patent collection. From the search results and any other information provided by the company, the patent lawyer will render an opinion as to the likely scope of patent protection that may be obtained on the invention.

In addition, patent reform legislation is subject to ongoing debate and should be considered when evaluating the company's intellectual property portfolio. Further, patentability standards can be changed or modified based on case law. Recently, in *KSR International Co. v. Teleflex, Inc.*,[35] the Supreme Court redefined the standards for obviousness. As a result, the company should be aware that any patentability opinion is merely an opinion and not a definitive answer regarding the patentability of an invention. Also, the company should consider examining the availability of patent rights in foreign countries as well as in the United States.

9. Preparing a Patent Application

If the company decides to proceed after reviewing the opinion, the patent lawyer prepares a patent application for review by the inventors. When the application is approved by the inventors, they sign a required declaration that they are the inventors and that they believe the invention is patentable.[36] They also

execute an assignment of the invention to the company. Once all papers and fees are filed with the PTO, the examination process begins. The PTO currently accepts the patent application either in hard copy or electronically, with the trend being towards requiring most if not all applications to be filed electronically. Electronic filings are currently required only when the applicant requests the application to be published early.

For utility inventions, the company may initially file a provisional patent application. Some of the significant features of a provisional application are:

- The provisional filing date can be used to establish the priority date for corresponding foreign applications.
- The provisional filing date does not count when calculating patent term.
- The cost of preparing and filing may be relatively low because the requirements for a provisional application are less rigorous than those for a regular application. This allows additional time for the company to make a decision to proceed with the cost of a regular application.
- Provisional applications are not examined.
- Provisional applications are not published.
- Provisional applications expire at the end of one year.

Because the provisional applications expire without becoming patents, a regular application eventually needs to be filed.

The Patent Office has considered several programs by which it can expedite the patent examination process.[37] The most notable of these is Accelerated Examination.[38] During the examination process the company may file a petition to make the patent application "special" with the USPTO, thereby allowing the company to obtain a final decision on patentability within 12 months of the filing date. Accelerated Examination is intended for situations in which a prolonged delay in granting an application would harm the commercial viability of the technology sought to be patented. The company should review the USPTO website[39] for updates regarding special programs.

Once the patent application is examined, the company may have to make decisions regarding filing additional related applications. Examples are:

- Continuation applications; during examination of a patent application by the PTO, the examiner and the company may not reach agreement on the patentability of all of the claims. In this case, the company can appeal, or can continue prosecution by filing a Request for Continued Examination (RCE) or a "continuation application." Both contain the same disclosure as the prior application and have the benefit of its filing date. The essential difference is that a continuation is a new application and will be examined in order with other new applications. An RCE, however, is not a new application but rather is a continued examination of the original application. The next Office Action by the Examiner can be expected very quickly (a month or less). The

PTO has recently enacted rules that limit the number of continuation applications that may be filed for each original application.[40] The rules were set to go into effect on November 1, 2007, but due to a current legal challenge in federal court, it is uncertain when and if the rules will take effect.

- Continuation-in-Part (CIP) applications; a CIP application differs from a continuation application because it contains additional disclosure. The CIP will enjoy the benefit of the filing date of the prior application only for claims that are fully supported by the disclosure of the prior application, and all other claims will have the benefit of only the CIP filing date.

10. Costs

The costs of conducting the state of the art study, patentability study, preparation of the patent application, and prosecution to issuance in the PTO will vary depending on the complexity of the invention. Additionally, PTO fees vary based on whether the company is designated a large or small entity. A recent survey[41] reported the following typical mid-range costs (the 25th and 75th percentiles). The costs below are the averages (rounded to the nearest $100) in 2004, over the entire United States and do not take the variation by geographical location into account. Also, these costs do not include the official PTO fees.

Novelty search and opinion: $1,500 average
Preparation of a utility patent application
    Minimal complexity: $5,000 to $8,000
    Relatively complex electrical/computer: $8,000 to $13,000
Preparation of a provisional patent application: $2,000 to $5,000
Preparation of a design patent application: $1,000 to $2,000
Preparation and filing of an amendment in prosecution of a patent application
    Minimal complexity: $1,000 to $2,000
    Relatively complex electrical/computer: $2,000 to $3,500
Issuance of a patent: $400 to $800

In addition, three maintenance fees must be paid at 3.5, 7.5, and 11.5 years after the issue date of the patent to maintain the patent's enforceability. As of July 2007, these government fees were $900, $2,300, and $3,800, respectively for a large entity. The survey reports attorney charges of, on average, $200 for paying maintenance fees.

11. Timing

A company should file patent applications before events occur that will result in the loss of patent rights. Generally, this means before the public use or disclosure of the invention. The United States has a grace period of one year to file after public use or disclosure, but most other countries have no grace period. Also, filing promptly will establish an earlier filing date, preventing later art from affecting patentability and, in addition, enhance the company's position in

any interference (priority) contest. The company's patent lawyer should consider the information provided in the Invention Disclosure Form or other record of invention in determining the critical dates for filing.

12. Other Considerations in Filing Patent Applications

There are several consequences of filing a patent application that the company should consider.

a) Confidentiality

The subject matter of the patent application will be published or available to the public when the patent is granted or is referred to in another issued patent. Also, new utility patent applications are published about 18 months after the priority date to which the application is entitled, which in some cases can be only a few months after actual filing in the U.S. An applicant can avoid publication of an application (and thus maintain its confidentiality) by filing a request with the application[42] and certifying that the invention disclosed in the application has not been, and will not be, be the subject of an application filed in any other country, or under a multilateral international agreement. In effect, the applicant must forswear foreign rights to the invention. If this request is denied, the application will be published. Other reasons why an application may not be published include: the application is no longer pending, as when the application was abandoned or allowed; the application is subject to a government secrecy order; or the application is a provisional or design patent application, neither of which is subject to publication.

b) Invention Secrecy Act and Atomic Energy Act

The PTO reviews every U.S. patent application for subject matter falling under either the Invention Secrecy Act of 1951[43] or the Atomic Energy Act of 1954.[44] That subject matter includes information that would be detrimental to the national security if publicly known, and inventions directed to the use of special nuclear material or atomic energy. Under the Invention Secrecy Act, the PTO may issue a secrecy order placing the application in suspension, precluding the company/applicant from disclosing the information in the application and from filing any foreign patent applications. Although the applicant is entitled to compensation from the government for damages and any use of the invention by the government, such a secrecy order may preclude the company from practicing the invention in its own business. Under the Atomic Energy Act, the company cannot patent any invention directed to the use of special nuclear material or atomic energy in an atomic weapon. Also, the government may invoke compulsory licensing of inventions directed to the production or use of special nuclear material or atomic energy.

C. Patent Committees

Patent committees are discussed in Chapter VI.

D. Instituting a New Patent Program – A Phased Approach

Instituting an entire new patent program will likely take many weeks or months. The program may be phased in to address the more urgent areas first and may consist of the following steps:

1. Conduct a baseline audit to determine what patents and patent applications the company has and what third-party relationships exist that affect inventions;
2. Determine what company patent rights are perceived as important by the company; these will include patent rights that are used or projected to be used in the business; you may find that patent rights exist for discontinued products or on inventions that may not be important to the company business;
3. Put in place confidentiality agreements and disclosure and publication review guidelines so the company will not unintentionally lose patent rights; have all new employees sign invention disclosure and assignment agreements as a condition to employment and before starting work; prepare and file patent applications, maintain patent application prosecution and pay outstanding maintenance fees and annuities on important patents and patent applications; revival may be available for lapsed patent applications and issued patents;
4. Establish a long-term program and a budget; have them approved by management;
5. Institute the patent program for the long-term; this includes having all patent applications entered in a docket system for tracking prosecution and maintenance due dates; computerized docket systems are preferred and are available from a variety of vendors; patent annuity payment services are also available;
6. Set up a Patent Committee;
7. Have existing employees sign any new agreements as a condition to receiving a raise, bonus, or promotion.

E. Patent Training for Employees

All employees should receive some level of training on the company's policies and procedures regarding inventions. For researchers, engineers, and other employees that are likely to make inventions, the training should be more extensive, covering basic principles of patentability and the employee's responsibilities to the company regarding reporting and recording inventions. Managers should receive the same extensive training. In addition, managers should be trained on their responsibilities under the company's policies and procedures and on interactions with the patent committee. This more extensive training should be conducted by a patent lawyer.

F. Avoiding Infringement of Third-Party Patent Rights

Usually patent infringement problems arise after the company's infringing product is already in the marketplace. At this stage, the infringement can result in serious consequences for the company, including litigation costs, retooling costs, distraction of employees to deal with the matter, adverse customer relations, and perhaps the loss of the entire product line. The company can take steps to avoid infringement problems through its patent program. The key is for the company to be aware of new manufacturing processes and product designs and clear them for infringement at an early stage, when any necessary changes can usually be carried out more economically. By monitoring new product developments and company invention disclosures, the company can identify significant proposed product and process changes that warrant clearance before marketing.

1. State-of-the-Art Study

A "state of the art" study may be conducted early on in a product development project to find existing patents and publications for similar products and processes. The study should include a search for patents and review of the literature. This study will provide information on what others have invented when confronted with similar problems. It will also identify, early in the design process, any existing patents to be avoided. Any necessary design changes can likely be made at this stage efficiently and at low cost.

2. Infringement Study

Once a product or service is sufficiently developed so that its final functional configuration is fairly well determined, the company should conduct a patent infringement study and obtain an infringement opinion. This should be done prior to incurring significant new tooling and manufacturing facility commitments or launching a new service into the market. If the study reveals infringement issues, they may be correctible at this stage. Also, in the event the product or service is later found to infringe a patent, having the infringement opinion can help avoid any award of enhanced damages for willful infringement, which could be up to three times the amount of compensatory damages,[45] as well as any award of attorneys' fees to the patentee.[46] However, recent case law[47] as well as proposed patent reforms may make it more difficult for a plaintiff to obtain treble damages.[48] In general, there is no "adverse inference that an opinion was or would have been unfavorable" where an alleged infringer fails to produce an exculpatory opinion of counsel.[49]

The infringement opinion should:

- Be in writing and rendered by a competent patent lawyer;
- Include a comparison of the claims of the patent with the company's product and include reasons why the product does not come within the scope of the patent claims;
- Include a review of the patent's prosecution file history;

- Be rendered prior to commencement of manufacturing and marketing activity.

If the company makes changes to the design of the product after the infringement opinion is rendered, it should obtain a supplemental opinion.

3. Designing Around Patents

"Designing around" a patent means to configure a product or process so that it does not infringe the patent. The product or process infringes the patent if it includes all of the elements of any one of the patent's claims, the numbered paragraphs at the end of the patent text. The elements of a claim are the structural features or steps listed. Typically, "designing around" eliminates at least one enumerated element in each of the patent's claims. Often, the same element can be identified for many, if not all, of the claims in a patent. The element does not have to be a novel one but can be one that is old in the art. Sometimes avoiding use of the element is simple. Other times, extensive effort is required to develop an alternative approach while still maintaining a commercially acceptable product.

4. Validity Study

If an infringement issue is discovered and the product cannot be modified to avoid the patent without rendering the product inferior or uncompetitive, the validity of the patent claims can be analyzed. However, it is usually more difficult to defend a patent infringement claim based on invalidity, and thus preferable to have a non-infringement position based on the product's lack of one of the claimed features as discussed above. The most common basis for invalidity is prior art not considered by the PTO in examining the patent. Thus, the study includes a search specifically for such additional prior art. The invalidity search is often extended beyond the records of the PTO to other patent collections that may not yet have been searched, such as those at the European Patent Office and the Japanese Patent Office.

5. Licensing

Another option for dealing with a potential infringement issue is to seek a license under the patent. If the patent owner is willing to grant the license under commercially acceptable terms and conditions, this will enable the company to use the needed patented invention in the company's products or services. The company may also cross-license its own patents to the patent owner.

6. Monitoring Competitors for Infringement of the Company's Patent Rights

To help maintain its competitive edge, a company needs intelligence on the products and services its competitors are offering in the marketplace. This information is helpful not only in the configuration and pricing of the company's products, but also in policing the company's patent rights. Good sources of

such intelligence include:

- Trade shows;
- Web sites;
- Trade journals;
- Patent searches;
- Customers and vendors;
- Private detectives;
- Reverse engineered products;
- Competitors' employees;

The patent program should include the gathering of intelligence on the competitors' products. Marketing personnel particularly have many contacts with good sources of such information. They should be trained how to gather it properly and report it back to the company.

G. Asserting Patent Rights

If the company feels that another party has violated its patent rights, it has a variety of options that it may pursue, ranging from offering to license the patented technology to filing a lawsuit. Before proceeding with a lawsuit, the company should warn the alleged infringer in clear language of its potential infringement of one or more of the company's patents. This letter should also warn of the company's intentions to enforce its patent rights. If the alleged infringer fails to cease its infringing use, suit should be filed in a timely fashion in order to ensure that the company obtains the venue of its choice for trial. If licensing negotiations are not begun or suit is not filed in a timely fashion, the alleged infringer may file an action for a declaratory judgment, thereby obtaining the venue of its choice for the trial. As explained below, there are many considerations in asserting patent rights.

1. Declaratory Judgments

A declaratory judgment of invalidity is a court action in which an alleged infringer seeks a judgment declaring a patent invalid. In order to seek such a judgment, the alleged infringer must have standing to sue. In general, anyone who has received a direct threat of enforcement of patent rights has standing to sue for a declaratory judgment. In 2007, the Supreme Court held that a patent licensee need not breach the licensing agreement in order to have standing to seek a declaratory judgment regarding the validity of the licensed patent.[50] Therefore, a licensee who believes the licensed patent is invalid may elect to seek a declaratory judgment challenging the patent's validity.

2. Remedies

The two most common forms of remedies are an award of monetary damages and an injunction preventing the defendant from further utilizing the pat-

ent. Courts typically awarded monetary damages in the forms of a reasonable royalty rate for the use of the patent and lost profits. An injunction prohibits the infringer from further use of the patented technology. The Supreme Court recently held that the same factors apply in determining whether to issue an injunction in a patent case as apply in other contexts.[51] In order for an injunction to issue, the patent holder must show that: 1) it has suffered an irreparable injury; 2) monetary damages would not be able to fully compensate the patent holder's injuries; 3) the balance of hardships between the parties warrants an equitable remedy such as an injunction; and 4) an injunction would not disserve the public's interests. When an injunction issues, the infringer is prohibited from further use of the patented technology. The infringer may also be ordered to pay damages, typically in the form of a reasonable royalty or lost profits for its past infringing use of the patented technology.

3. Enforcement at the International Trade Commission

The United States International Trade Commission (ITC) provides an additional avenue through which patent holders may elect to enforce their rights. While the ITC cannot impose monetary penalties upon infringers, the ITC can prohibit the importation of products that it deems to infringe patent rights.[52] It is common for patent holders to proceed with an ITC and federal district court action at the same time.

4. Costs

The cost of patent litigation varies with respect to the amount of money that is at issue in the action. A recent survey[53] reported the following typical mid-range costs (the 25th and 75th percentiles) for patent litigation. The costs below are the averages (rounded to the nearest $100,000) in 2005, over the entire United States and do not take the variation by geographical location into account. Also, these costs are estimates of the total cost of litigation, including court fees.

Less than $1 million at issue
- End of discovery: $200,000 to $500,000
- All costs: $400,000 to $900,000

$1 to $25 million at issue
- End of discovery: $600,000 to $2,000,000
- All costs: $1,200,000 to $3,500,000

More than $25 million at issue
- End of discovery: $1,400,000 to $4,000,000
- All costs: $2,500,000 to $6,000,000

III. Obtaining and Protecting Trademarks

A. What Is a Trademark? What Is a Service Mark?

A trademark is anything that distinguishes a product from products of someone else and indicates the product as being from a single source (whose identity may or may not be known). For example, COMPUTER is not a trademark, but DELL is a trademark. A service mark performs the same two functions, but identifies services instead of products. Thus, RESTAURANT is not a service mark, but MCDONALD'S is a service mark. In this Chapter, we will use the term "trademark" to encompass both types of marks, unless indicated otherwise.

A trademark can be anything that is capable of distinguishing and indicating the source of a product. While most trademarks are words or phrases, such as PEPSI or FLY THE FRIENDLY SKIES, trademarks need not include words. Many trademarks are designs such as Nike's Swoosh logo. In addition, colors, sounds, and smells can also serve as trademarks. For example, the pink color of Owens-Corning's insulation is a trademark.[54]

Beyond distinguishing a company's product from those of its competitors and indicating the source of a product, trademarks serve another important function. Because customers associate trademarks with particular companies, trademarks serve as valuable symbols of the goodwill that exists in a particular product or company. All of a company's product development efforts, and its marketing and advertising expenditures, are symbolized by the product's trademark.[55]

B. Selection and Approval of Trademarks

In-house counsel play a central role in the selection and approval of new trademarks. In addition to avoiding infringement of other companies' marks, counsel will also want to educate marketing and product development personnel on the importance of choosing effective trademarks. Good trademarks are those that are easy to market and easy to protect. As discussed below, however, these two goals are at odds with one another. Each of the following types of trademarks has its advantages and disadvantages with regard to marketing and protection.[56]

1. Coined Marks

Coined or "made-up" marks such as EXXON and PROZAC are marks that do not convey any information about the product on which they are used. They

are unique and easy to protect because a similar competing mark is likely to confuse consumers. Conversely, they are more difficult to market because they require a substantial marketing effort to explain to the consumer what the product is.

2. Arbitrary Marks

Arbitrary marks are real words that are unrelated to the products on which they are used. For example, APPLE is an arbitrary trademark for computers. Like coined marks, arbitrary marks are strong from a legal protection standpoint and, since they are actual words, they are slightly easier to market than coined marks. Because they convey no information about the product, though, arbitrary marks still require significant marketing effort to inform the customer about the product.[57]

3. Suggestive Marks

Suggestive marks hint at aspects or qualities of a product, but do not directly describe the product. For example, EXPLORER for a sport utility vehicle suggests qualities of the product. Suggestive marks are fairly strong from a legal protection standpoint, yet much easier to market than coined or arbitrary marks. As such, suggestive marks strike the best balance between the dual goals of finding a mark that is easy to protect and easy to market.[58] However, the dividing line between suggestive and descriptive marks is often not clear.

4. Descriptive Marks

A descriptive mark immediately and directly conveys something about the product. AMERICAN AIRLINES and THE DOLLAR STORE both directly describe the services with which they are used. Because they describe aspects of a product or service, they are seemingly easy to market but difficult to protect. Descriptive marks are poor at indicating the source of a product and in distinguishing a product from competing products because they describe the product but are not distinctive enough to be associated at the outset with one company. Descriptive marks are not protectable until they have developed "secondary meaning." After a sufficiently long period of use in connection with a product, or after a significant marketing and advertising effort, a descriptive mark no longer just describes the product, but secondarily indicates to consumers that the product comes from a particular company.[59]

Even though descriptive marks are capable of acquiring secondary meaning, they have negative aspects. Until a descriptive mark has secondary meaning in the minds of consumers, the owner of the mark cannot stop other companies from using it. Sometimes, despite a company's best efforts, a descriptive mark never develops secondary meaning because it is not used often or exclusively enough to create the necessary association in the minds of consumers between the mark and the source of the product. Finally, competitors can continue to

use descriptive marks even after they have secondary meaning, so long as they use the mark in its original, purely descriptive sense.

5. Generic Terms

Generic terms are so highly descriptive that they are not capable of functioning as trademarks. In contrast to descriptive marks, which merely describe aspects of a product, generic terms immediately describe an entire class of products. Thus, while IVORY is a trademark, SOAP is a generic term that is incapable of functioning as a trademark.[60]

6. Narrowing the Field of Potential Trademarks

Prospective trademarks come from a wide variety of sources: the marketing department, outside advertising agencies, consultants, and company employees. Marketing departments sometimes solicit ideas for new marks from employees in the form of contests. Ideally, the process of selecting a new mark is a winnowing process in which a large field of candidates is narrowed to a smaller set of marks to be searched. Inevitably, conflicts that arise in the selection process (or later, in the registration process) will narrow the field. For any new trademark, it is a good idea to generate approximately 15 to 20 candidate marks.

The next step is to do preliminary "knock out" searches of the PTO's records, which can be searched, without charge, on the Internet at *www.uspto.gov* or on several proprietary subscription services. The PTO web site is limited to marks covered by federal applications and registrations, while the subscription services may also report marks registered on state registers or those that are not registered. The purpose of such a search is to eliminate from consideration marks that have obvious conflicts with trademarks that have already been federally registered by others. Some companies may choose to do consumer testing of the remaining marks at this point, while others may wait until the list has been narrowed further by full trademark searches.

Once "knock out" and consumer testing has been done, the next step is to prioritize the remaining candidate trademarks for full trademark searching. This can be costly and time-consuming. Many companies select a small number of candidates and search those first, proceeding down the list as necessary. Inevitably, full trademark searches will eliminate additional candidate marks.

7. Searching to Avoid Infringement

Searching to see whether a mark is available is perhaps the most important phase in the selection process. It is the primary means by which a company can avoid infringing another's trademark by unwittingly adopting a trademark that is the same as, or confusingly similar to, a mark that is already in use. Trademark infringement – even unintentional infringement – can have serious

consequences. Even in a best-case scenario, a company may be forced to stop using a trademark in which it had invested effort, money, and goodwill. If the company is sued and found to have infringed another party's trademark, the company could be forced to:

- Rename its product;
- Destroy everything (labels, packaging, advertising material) with the mark on it;
- Pay to the plaintiff an accounting of profits made on the sale of the product;
- Pay money damages to the owner of the infringed mark; and/or
- Pay the trademark owner his attorney's fees for the infringement action.

Careful searching can avoid expensive problems, which may result if the company is sued for trademark infringement.[61]

Trademark infringement is defined as using a trademark in such a way that it is likely to confuse the purchasing public as to the source of a product. The concept of "likelihood of confusion" is central to whether a use is infringing and is a function of the similarity between the two marks and how closely the relevant products are related. For example, using the trademark BIK for fountain pens is likely to cause confusion with the trademark BIC for ballpoint pens. Confusion is likely because a reasonable purchaser would conclude that the same company that made BIK fountain pens made BIC ballpoint pens. By contrast, use of the mark BIC for restaurant services is not likely to cause confusion with the trademark BIC for ballpoint pens. Although the marks are identical, the services and goods are unrelated.[62]

8. Searching Basics

The purpose of a trademark search is to find uses of similar marks used on related goods and services. In the United States, trademark rights can be acquired merely by using a mark. While many trademark owners choose to obtain federal registration of their marks, registration of a mark is not necessary to obtain "common law" rights, which arise merely from the use of a mark. For this reason, a full trademark search in the U.S. should cover:

- Federal registrations;
- State registrations; and
- Unregistered or common law uses.

Because trademark law is primarily concerned with use on related goods and services, the search will consider the products and services on which the mark will be used.

It is important to remember that there is no central registry for marks that are registered in individual states or are unregistered. Therefore, firms should employ one of a number of companies that specialize in providing trademark

searching services, and have developed proprietary information source databases. These companies can provide the results of trademark searches online or in the form of printed search reports.[63] The standard turnaround time for such a trademark search is about four working days. Even so, these searches are dependent on the completeness of the databases searched, and these databases are known to be incomplete. Accordingly, no "full" search can guarantee relevant marks have not been missed.

9. Availability Opinions

In many cases, in-house personnel may have neither the time nor the expertise to evaluate a trademark search report to determine whether a candidate mark is available. In that event, outside counsel with specialized expertise in the trademark field are often used to evaluate a trademark's availability and to provide a written opinion. While a company is not legally required to obtain an availability opinion before adopting a trademark, it is a cost-effective means to protect against the costs and consequences of trademark infringement – including the cost of re-launching a product under a different mark.

10. Dealing with Problems

Counsel have a number of options in situations where a search report or opinion letter reveals the existence of a potentially conflicting prior use by a third party. The most important first step is to obtain as much information as possible about the potentially conflicting use and user. Today, most companies have websites that provide a wealth of information about the company and its products and services. Other company information, such as that provided by Dun & Bradstreet (D&B),[64] LEXIS,[65] and Westlaw,[66] can be of value in evaluating the owner of the conflicting mark. Additionally, specialized trademark investigation firms often can determine whether or not a particular mark is in use.[67] Because trademark rights flow from use, they can be abandoned through non-use. Failure to use a mark for three years is prima facie evidence of abandonment.

If, after investigation, a conflict is determined to be real, several options exist for resolving the conflict. Examples include:

- Buying the conflicting mark;
- Obtaining the consent of the owner of the conflicting mark; and
- Filing an action to cancel the registration where the conflicting mark is not in use.

C. Registration of U.S. Trademarks

With one exception, trademark rights in the United States flow from use, not from registration. Registration of the mark makes those rights stronger and easier to enforce. In the U.S., the trademark registration process involves the following steps:

1. Filing of an application in the PTO;
2. Examination of the application by the PTO, which includes a search of the PTO's records (and, where conflicts are found, argument with the PTO regarding likelihood of confusion);
3. Where no conflicts are found, publication of the application in the PTO's Official Gazette;
4. A 30-day period begins, during which third parties can file opposition proceedings against the published application;
5. Where no oppositions are filed and the mark already is in use, issuance of the trademark registration certificate.

The exception referred to above is that U.S. applications may be based on a good-faith intention to use the mark rather than actual use. However, registration cannot issue until use in the U.S. begins. Where an application is based on "intent to use," step 5 above is replaced by issuance by the PTO of a Notice of Allowance. This notice indicates that the PTO will issue a registration as soon as the applicant demonstrates use of the mark. After the PTO issues the Notice of Allowance, the application may be maintained for up to three years by filing extensions every six months, along with a fee and an explanation of why the mark is not yet in use. Provided the registration eventually issues, trademark rights arise as of the filing date of the application.

The time it takes to register a trademark varies. In a best-case situation in which the mark is in use and no conflicts or formal defects are found and no oppositions are filed, a registration can issue in as little as eight months. Typically, however, successful prosecution of an application for trademark registration takes between one and two years. In some cases, the process can take several years.[68]

Once a registration has been obtained, it must be maintained. U.S. law requires that in the fifth year after the initial registration issues, the owner of the federal registration must prove to the PTO that the mark is still in use. If proof is not submitted, the PTO will automatically cancel the registration.

Trademark registrations must be renewed every 10 years. Evidence that the mark is still in use must also be submitted with the renewal application.[69]

D. International Trademarks

Trademark rights are acquired and protected on a country-by-country basis. For products that are marketed internationally, searching for conflicts and registering marks in other countries is essential.

1. International Searching

The first step in the international clearance process is to eliminate obviously conflicting marks. Trademark search companies have products to provide a review of potentially conflicting marks. However, these are insufficient to clear a mark for use because they may provide very little information and search only identical marks or very close matches.

For country-by-country full searching and expert trademark advice, you should engage foreign associates. Different countries' legal systems have different ideas about what constitutes likelihood of confusion. Foreign associates also are sensitive to local language issues that may arise. For example, a Mexican trademark associate would have quickly determined that auto maker Chevrolet might have difficulty selling its automobiles under the trademark NOVA in Mexico ("no va" means "it does not go" in Spanish).

The determination of which countries to search depends on the market for the product. As a general rule, a company should consider searching wherever it intends to use the mark in the next 7 to 10 years. Results of country-by-country searches are typically available in four to six weeks. Often, foreign trademark searches identify a few possible conflicts that require further investigation. A thorough search can provide advance warning of trademark problems, thereby allowing the company adequate time to try to resolve them.

2. International Registration

In other countries, the law relating to trademark registration can differ from U.S. law in three major areas. First, many countries do not examine trademark applications for conflicts with other registered marks. Second, some countries do not allow oppositions to trademark applications. Finally, in most foreign countries, rights in trademarks flow from registration rather than use. In these countries, a trademark owner has no rights in the mark until the mark has been registered. Because registration can take up to eight years in some countries, companies should file applications in countries where the mark will be in use in the next 7 to 10 years. With a notable exception (discussed below), trademark registrations are acquired on a country-by-country basis.

Most companies have a small number of primary marks and a larger number of secondary marks. Primary marks are the company's name and perhaps the marks for the top selling products or product lines. Secondary marks include slogans and marks that are used on lesser products. With a finite budget, it is better to register the company's primary marks in as many countries as possible instead of registering both the primary and secondary marks in a few countries. In many cases, not all of a company's secondary marks that are used in the U.S. will be used abroad due to cultural and language differences.

In filing internationally, the company should file first in the countries where sizeable sales are expected in the next 7 to 10 years. Next, the company should register its primary marks in countries that have a reputation as a source of counterfeit goods and in well-known "pirate" countries.

The notable exception to the country-by-country filing rule for international trademark registration is European Community Trademark registration or "CTM." A single Community trademark application will result in one registration that covers all 27 countries of the European Union: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, and the United Kingdom. Although a company can still file in each country individually, the Community registration, while not inexpensive, is a significantly cheaper approach. Community registration also makes it possible to file one infringement action and obtain an injunction that applies in all member countries of the European Union. With individual country registrations, an injunction would apply only in that forum country. Finally, most trademark registrations can be cancelled if the mark is not used for a period of time in the country. The European Community Trademark registration is not vulnerable to cancellation so long as the mark is being in used in even one member country. Thus, for most companies, a European Community Trademark registration is a worthwhile investment.[70]

Trademark protection in developing countries has limitations. Some developing countries do not have trademark protection laws. Others do not have a trademark registration system but give notice of rights by cautionary notices that are published in newspapers. In many, colors, letters, or product shapes cannot be registered. Many have other legal quirks that can prevent registration. For instance, in Brazil, only companies—not individuals—can register trademarks for automobiles. Saudi Arabia will not register marks for alcoholic beverages or pork products. In many developing countries, enforcement can be a challenge even if a registration is obtained. Some countries do not allow injunctions, while in other developing countries, corruption is so rampant that outcomes are unclear. In any case, the best strategy in developing countries is to use a well-known, reputable, local law firm to obtain whatever protection the law allows and to register marks early in pirate countries.

3. Non-Use in Foreign Countries

Failure to use a registered mark in a foreign country for a period of years can result in registration's becoming vulnerable to cancellation for non-use. Generally, a third party can file an action to cancel a registration for non-use after a period of three to five years of non-use. To make matters worse, the third party could also file a new application to register the mark at the same time. If the

company's mark is not in use, the third party would then obtain a registration for the company's mark and be able to use it to prevent the company from using its mark in the future. This technique is sometimes used by third parties who want something (such as a distributorship) from the company. One strategy for avoiding this problem is to file new applications to register the mark before the original registration becomes vulnerable to cancellation for non-use.

E. Role of the In-House Legal Department in Selecting Marks

The in-house legal department plays a vital role in screening new marks prior to adoption. Before actually using a potential new trademark, it should be funneled through the legal department for review. The company may chose to have other personnel do the "knock-out" search or have it done by the legal department. The mark should then be forwarded to outside counsel to conduct a full trademark search.

It is essential for in-house lawyers to educate sales and marketing department employees on the basics of trademark infringement so that employees realize that even slogans, taglines, or designs can infringe and expose the company to liability. In-house personnel regularly should review all advertising materials including, for example, sales and marketing communications, annual reports, presentations to investors, and Internet uses to determine whether the company's trademarks are being used properly and have been properly cleared.

In addition to searching, in-house counsel should not be afraid to ask marketing personnel whether a proposed mark is known to be similar to a competitor's mark. No availability opinion from outside counsel can shield a company from liability for trademark infringement where it can be shown that a mark was adopted with actual knowledge of a confusingly similar use by a competitor or other third party about which the company, but not the counsel, was aware.

In addition to clearing new marks, in-house counsel should routinely review current use of existing marks to determine whether the marks are being used properly (see section E below).

In-house lawyers are frequently called upon to perform trademark audits to determine what marks exist for the company, what registrations it owns, and what unregistered or common law marks it uses. This is often required in connection with mergers, financing, and the acquisition of other companies. Counsel should use the following steps in an audit to obtain the most complete picture of what trademarks are owned by the company.

First, counsel should review available records. These can be in the form of paper documents, agreements, schedules, legal files, or electronic documents. Next, counsel should perform electronic database searches on available data-

bases to determine what marks are registered by the company. For instance, the search facility on the PTO's website allows a user to search for all federal applications and registrations owned by a particular owner or incorporating a particular set of terms. Additionally, in-house lawyers should contact outside counsel to obtain copies of their files. Intellectual property law firms frequently have docketing databases that can generate reports of all trademarks being managed by the firm for a particular client. Finally, counsel should perform an extensive review of marketing materials, advertisements, annual reports, and the company's Internet sites to determine what unregistered and common law trademarks the company may currently be using.

F. Proper Trademark Use

Monitoring the company's advertising and marketing materials, website, and other communications to make sure that the company's trademarks are used properly is central to the role of the in-house legal department. Proper use of a trademark is more important than registration because a federal trademark registration cannot save a trademark that is used incorrectly over time. Improper trademark use can lead to a loss of distinctiveness and association with one particular company.

Following these five rules will help protect the company's trademarks:

1. Rule 1 – Always Use the Trademark with Its Generic Term

Improper use: IVORY

Proper use: IVORY soap

A generic term describes a type of product (e.g., SOAP) while a trademark identifies a particular brand of that product (e.g., IVORY). It is therefore improper trademark use to use the mark itself as a generic term (e.g., "hand me a KLEENEX"). Including the generic term (e.g., "hand me a KLEENEX tissue") guards against improper use and helps prevent converting a trademark into an unprotectable generic name. This rule is not always followed, but it can be extremely important in emerging industries, where a company's trademark can quickly become the generic term commonly used within the industry.

Improper trademark use can lead to a loss of distinctiveness that is referred to as "genericide." The following generic terms used to be trademarks in the U.S.: ASPIRIN, ESCALATOR and CELLOPHANE. Because consumers came to regard these marks as generic terms, they lost their ability to serve as indicators of a single source. In the case of the mark ESCALATOR, no generic term existed because the product was the first of its type. Where this is the case, the

company must also create a generic term and use it with the mark.[71]

2. Rule 2 – Never Use a Trademark in the Plural Form

Improper use: Two BAND-AIDS

Proper use: Two BAND-AID bandages

3. Rule 3 – Never Use a Trademark in the Possessive Form

Improper use: KODAK's color accuracy

Proper use: KODAK film's color accuracy

4. Rule 4 – Never Use a Trademark as a Verb

Improper use: She XEROXED the report.

Proper use: She photocopied the report.

5. Rule 5 – Always Distinguish the Trademark from the Rest of the Text

The XEROX photocopier

The *Xerox* photocopier

The *XEROX* photocopier

The federal registration symbol ® should be used only in connection with federally registered trademarks. The trademark symbol ™ can be used with any mark, including unregistered common law marks, and serves to indicate to third parties that the company views the mark as one of its trademarks.[72] For service marks, sometimes the symbol SM is used in connection with unregistered marks; when registered, the ® should be used.

Because proper trademark use is so important to maintaining the company's rights in its marks, all sales and marketing communications disseminated outside the company should be funneled through the in-house legal department for approval, and internal company use monitored to avoid misuse of the mark. The legal department also plays a central role in developing company policies regarding use of the company's trademarks in advertising, sales communications, and on the Internet, and in ensuring that the company's marks are used properly by outside partners.

G. Protecting Against Infringers

Watch services are a primary means by which companies can monitor uses of similar marks by third parties. Trademark specialty firms provide subscription services that monitor the publications of the PTO as well as trademark offices of other countries to locate marks similar to the mark being watched. When a potentially infringing mark is published for opposition, the watch service subscriber receives a notice that includes information about the owner of the potentially infringing mark and the goods and services covered by the application. Subscribers can elect to be notified of potentially infringing marks either at the point that the application is filed or at the point that the application is published. Since publication is the critical point at which the decision to oppose must be taken, most companies choose to be notified at the time of publication of potentially infringing marks.

Infringing uses of trademarks in Internet domain names is a growing problem. Because the Internet is relatively unregulated and subject to rapid change, trademark watch services for domain names may not be reliable. Some companies may allow subscribers to do their own searching of the service's databases of Internet domain names to discover potentially infringing uses.

Finally, the company's own sales and marketing personnel as well as outside sales reps are valuable sources of information about potentially infringing uses by competitors. In-house counsel should facilitate communication with these personnel about potentially infringing uses by competing companies.

IV. Copyrights

A. Introduction

U.S. copyright law is derived from the U.S. Constitution, where the founding fathers provided in Article 1, section 8, clause 8, that "[t]he 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." Congress, however, did not enact a comprehensive federal copyright law until 1909. Before then, an amalgam of individual statutes rendered copyright law relatively unwieldy. For example, registration of a work was required before its publication.

The 1909 Act replaced the plethora of statutes. It granted copyright protection when proper notice was placed on the published work, and required deposit of copies with the U.S. Copyright Office. The framework of the 1909 Act still ap-

plies today to works created and published before January 1, 1978, the effective date of the 1976 Copyright Act.

The 1976 Copyright Act changed the copyright system and simplified obtaining copyright protection even further than the 1909 Act. Under the 1976 Copyright Act, copyright protection arises *automatically* once a work is fixed in a tangible medium of expression. It also preempts common law and state law protection for unpublished works, making copyright law entirely federal. The Copyright Act of 1976, in essence, provides the basic regulatory framework for current U.S. copyright law.

The 1976 Copyright Act did not, however, provide protection for U.S. authors whose works are used in foreign countries. Those authors had to simultaneously publish in the U.S. and in another country that had ratified an international treaty. This process for publication was cumbersome and costly. The problem, however, was remedied by the Berne Convention Implementation Act (BCIA) of 1988.[73] After the BCIA, an author could easily acquire international copyright protection when the work was fixed in a tangible medium of expression in the U.S., without any prior registration.

There have been a number of important revisions and amendments to the Copyright Act of 1976. Of particular importance are the Semiconductor Chip Protection Act of 1984, which provided design protection for semiconductor chips;[74] the Sonny Bono Copyright Term Extension Act which extended the term of copyright protection for *most* works; [75] and the Digital Millennium Copyright Act, better known as the DMCA,[76] which created additional protections for digital works and limited certain infringement liability for on-line internet providers.

Depending upon when an author's work was created, published, or infringed, each of the above-discussed Acts could be pertinent today in analyzing the validity and enforceability of a U.S. copyright. The law is codified in Title 17 of the United States Code.

B. Protectable Subject Matter

1. Works Protected

Copyright protection applies to original works of authorship (other than those of the U.S. Government, which are not eligible for copyright protection) that are fixed in a tangible form of expression. Protected works include those in the following categories:

- Literary works, including computer programs and databases (with or without illustrations, published or unpublished); some examples are: books, poetry, manuscripts, reports, speeches, pamphlets, brochures, textbooks, catalogs,

and directories;
- Musical works, including any accompanying words (the original composition and arrangement, as well as modified versions having added copyrightable material);
- Dramatic works and any accompanying music (for instance, a play, screenplay, and radio or television scripts but not the title of a program or series of programs);
- Pantomimes and choreographic works;
- Visual arts works (pictorial, graphic, and sculptural works, including two-dimensional and three-dimensional works of fine, graphic, and applied art; some examples are: advertisements, bumper stickers, comic strips, collages, dolls, toys, drawings, greeting cards, puzzles, photographs, posters, reproductions, and technical drawings such as blueprints, diagrams, or architectural plans);
- Motion pictures and other audiovisual works (including the camera work, dialogue, sounds);
- Sound recordings (both the performance and the engineering or production); and
- Architectural works.

2. Originality

In order for a copyright to exist, the work must exhibit originality, but the degree of originality required is relatively low. For example, yellow page phone directories have sufficient originality, but an alphabetical listing of names in a white pages phone directory does not. However, if the names were rearranged in accordance with some other scheme, the directory might then be afforded copyright protection. Also, even if a work includes portions copied from another source, it is considered "original" so long as its content includes some material of original authorship.

3. Fixation

A second requirement for copyright is that the work must be fixed in some tangible manner in order to render the expression static and perceivable. Thus, live broadcasts, extemporaneous speeches, or improvised music may not qualify as tangible and fixed, unless those works are captured on a recording medium or are in some fashion notated. Fixation is not dependent on the work's being directly or visually perceptible and can occur even if it is communicated with the aid of a machine or other device, such as a computer.

4. De Minimus Works

Copyright expressions must be of sufficient quantity to qualify for protection. For example, a short slogan, may be de minimus, i.e., too short, to qualify as a copyright but may be protectable as a trademark. The demarcation between

qualifying works and de minimus works varies by subject matter.

5. A Copyright Is Intangible

Ownership of a physical object, a book or painting, containing copyrightable material is not the same as ownership of the underlying copyright. Thus, even though an object that embodies copyrightable material is transferred to another owner by legal means, no rights in the copyrightable material are conveyed.

C. What Is Not Protectable

1. Works That Are Not Fixed

Works must be fixed in a tangible form of expression for the author to be provided with copyright protection. Works that are not fixed, such as improvised speeches or performances that are not written or recorded, are not protectable under U.S. copyright law. Because they are not so fixed, and also not authored, sports games and physical fitness exercises are not protectable, even as choreographic works.[77]

2. Ideas vs. Expression

A copyright protects only the manner in which a work is expressed – it does not protect the ideas or concepts embodied by the work. The difference between the expression and the idea behind the expression is often complex. Various U.S. courts have devised tests for separating the idea from the expression, but still the law on this issue varies greatly from court to court. Copyright protection also is not available for any "procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied."[78]

3. Other Exceptions

Copyright protection cannot be used to protect facts themselves, even though an accounting or presentation of the facts in an original way may be copyrightable. Similarly, blank forms are not copyrightable; however, forms containing a degree of originality, such as some insurance policies or contracts, could be afforded copyright protection. Typically, however, works that consist *entirely* of common information arranged in an ordinary manner and containing no original authorship are not copyrightable. Some examples are calendars, rulers, and lists or tables taken from a public document or other common source.

D. Authorship

Copyright initially and automatically vests in the "author" who creates the original expressions embodied in the work. The only requirement to be an author is

to have created the original expression, and to be human.

- Individuals as the author; unless the work qualifies as a "work made for hire," the individual(s) who creates the work is the author.
- Works made for hire; if the work was prepared as a "work for hire," the party for whom it was made is considered the author of the work and owner of the copyright. A work made for hire is defined as:

  "(a) a work prepared by an employee within the scope of his or her employment; or

  (b) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as an answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire."[79]

  Here, the employer or the commissioning party is the owner of the work.
- Joint Authorship; a work prepared by two or more authors is a joint work if it is prepared with the intention that the individual contributions be inseparable or interdependent parts of the same work. The intent of the authors is paramount. Absent evidence of an intent to combine the individual contributions, each author retains the copyright for his or her individual contribution.
- The copyright in a joint work applies to the work as a whole. Each author owns an undivided interest. An example of a joint work is a song having words created by one musician and the music created by another. Each co-author can independently exploit the work but, contrary to the situation with respect to patents, has the duty to account to the other authors.

E. Formalities

1. Notice

Whether the copyrighted work requires notice of being protected under copyright laws depends on the date of publication. Works published prior to March 1, 1989, required a copyright notice upon publication or the copyright was lost. However, for those published, i.e., distributed to the public by sale or other transfer of ownership, or by rental, lease, or lending[80] between January 1, 1978 and March 1, 1989, without a notice, the copyright can be restored so long as certain curative procedures were followed. When the U.S. joined the Berne Convention effective March 1, 1989, the mandatory use of a notice of copyright was abolished.

Voluntary use of the copyright notice is still recommended, however, because the notice defeats a claim of innocent infringement advanced in mitigation of actual or statutory damages.[81] Accordingly, the use of a copyright notice can be important. It informs the public that the work is protected by a copyright,

serves to identify the copyright owner, and may identify the first year of publication. The use of the copyright notice is the responsibility of the copyright owner and not the U.S. Copyright Office.

The copyright notice has either two or three required components. The first requirement is a reference to copyright in the form of the symbol "©," the word "Copyright" or its abbreviation "Copr." The second requirement is the name (or an abbreviation or generally known alternative designation) of the copyright owner. The third requirement, in most instances, is the year of first publication. In the case of a phonorecord of a sound recording, the letter "P" in a circle replaces the ©; and the year of first publication is that of the sound recording itself rather than the phonorecord (the physical embodiment of the sound recording, e.g., a CD or cassette). Placement of the copyright notice on the work is also important – it must give reasonable notice of the copyright claim. A typical notice may be as follows: ©[year][owner]. Frequently, the phrase "all rights reserved" is also included in view of non-U.S. law.

2. Registration

A common misconception is that registration is required to secure a copyright. This is not completely true. For works created after January 1, 1978, copyright arises *automatically* when the work is fixed in a tangible medium of expression. At any time thereafter, the copyright may be registered with the U.S. Copyright Office, but such registration is not mandatory unless a U.S. author is going to bring suit for copyright infringement (this prerequisite does not exist for foreign authored works).

It is advantageous to register a copyright within the first three months of first publication. This is because statutory damages and attorneys fees are always available as remedies only if registration occurs within three months of first publication. Otherwise, only an award of actual damages and profits are available to the copyright owner if the infringement began before registration was obtained. The registration establishes a public record of the copyright claim. Also, if registration occurs within five years of publication, the registration is *prima facie* evidence of the validity of the copyright and the facts stated in the copyright certificate.

Another important advantage of registration, particularly as globalization increases, is that it allows an owner of the copyright to record it with the U.S. Customs Service for protection against the importation of infringing copies.[82]

A registration can be obtained from the U.S. Copyright Office by depositing copies with the Office of the appropriate version of the published work,[83] an application form, and a non-refundable filing fee (currently $45.00). Only one copy is required for unpublished works and works published outside the U.S.;

otherwise, two copies are required. The U.S. Copyright Office examines only whether the work includes copyrightable subject matter and whether the legal and formal requirements have been met. Importantly, the Copyright Office does not determine the originality of the work. The Copyright Office only registers the claim for a copyright; it does not "grant" a copyright. The copyright registration is effective as of the date the Copyright Office received all three elements, regardless of how long it takes to process and issue a certificate of registration.

3. Duration

Generally, the current term of a copyright extends until 70 years after the death of the last surviving author, or in the case of works for hire and anonymous works, the term is 95 years from publication or 120 years from creation, whichever is shorter.

4. Deposit of Copies

Separate and apart from obtaining a copyright registration, there has been, since January 1, 1978, a mandatory requirement to deposit with the Copyright Office, within three months of publication, two copies of the *best edition* of all copyrightable work published with a notice in the U.S. Since the United States abolished the requirement for a copyright notice as of March 1, 1989, all works are subject to mandatory deposit whether published with or without a notice. Failure to comply can result in fines and other penalties, but does not affect copyright protection.

F. Exclusive Rights

The 1976 Copyright Act confers the following exclusive rights on authors in 17 U.S.C. § 106.

1. Copies

The author(s) of the copyright have the exclusive right to make copies, or to authorize others to make copies of the copyrighted work or a "phonorecord." A phonorecord is the physical embodiment of a sound recording, i.e., a CD, cassette, or vinyl. This exclusive right to copy does not prohibit copying of non-copyrightable elements in a work. So, if an individual copies the ideas or facts behind a copyrighted work, those acts would not constitute copyright infringement.

2. Derivative Works

The copyright owner has the exclusive right to prepare and authorize others to prepare derivative works based on the copyrighted work. A derivative work is thus based on one or more existing works, and is copyrightable if it includes

original authorship. Examples of derivative works include translations, editorial revisions, motion picture versions of publications, fictionalizations, and sound recordings that have been remixed. Compilations can also be copyrightable if they contain a new authorship, and in this connection, the determination of which songs to include is deemed to meet the standards of original authorship.

3. Distribution, Performance, and Display

The copyright owner has the exclusive right to distribute, perform, or display the work. The exclusive distribution allows the author to control the sale, publication, or rental of the work, but after the first sale, the new owner of the authorized copy is entitled to sell or otherwise dispose of the work.

The exclusive performance right extends to literary, musical, dramatic, and choreographic works, pantomimes, motion pictures, and other audiovisual works. To violate this right, the infringer must publicly perform the copyrighted work. In the case of sound recordings, a work is performed 'publicly' by means of a digital audio transmission.

The display right gives the copyright owner the exclusive right to display certain types of works. An infringing act of display must occur in public.

4. Limitations

While denominated "exclusive," the rights of a copyright owner are subject to limitations. One is that "fair use" of a copyrighted work is not infringement. When determining if activity constitutes fair use, the law directs courts to consider at least: (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for, or value of, the copyrighted work.[84] Some examples of fair use are: quotation of short passages in a scholarly or technical work; use of a work for commentary or criticism of the work; use in a parody; summary of an article with brief quotations in a news report; reproduction of a portion of a work by a library to replace a damaged portion; reproduction by a student or teacher for purposes of teaching and/or learning; and using a single copy of a computer program for the purposes of reverse engineering the program.

In certain situations, specific exemptions are provided to avoid incurring copyright liability. For instance, pictorial, sculptural, and graphical works are not included in the exclusive performance right. Moreover, in some cases, a limited use of copyrighted works is permissible under the concept of a 'compulsory license.'

G. International Rights

While there is no such thing as an 'international copyright' that can endow a person with copyright protection throughout the world, as a result of the U.S.'s membership in the Berne Convention, all works published after March 1, 1989, receive full protection in all member countries without prior registration. As soon as the post-March 1, 1989, work is created, it is automatically protected. Rights in other countries can be, in some aspects, broader than the rights in the U.S. Works created prior to March 1, 1989, fall under a different convention, and must be published in a foreign country in order to secure copyright protection in that country.

H. Transfer

Ownership of copyrights can be transferred by a written instrument signed by the copyright owner. Ownership can be transferred in whole or in part, and any of the exclusive rights can be transferred and owned separately. The document transferring the right can be recorded in the U.S. Copyright Office to serve as constructive notice regarding the transfer. Recordation provides for priority in case of conflicting transfers against a third party. While the transfer of *exclusive* rights requires a writing signed by the copyright owner or its agent, transfer of non-exclusive rights does not require a written agreement.

I. Cost of Protection

Because copyright protection automatically attaches when a work is fixed in a tangible medium of expression, virtually no cost is associated with attaining copyright protection. The cost to register a copyright with the U.S. Copyright Office in June 2007 was $45.00, $35.00 if registered online.

J. Enforcement

1. Infringement

To establish infringement, two elements must be shown: (1) ownership of a valid copyright, and (2) impermissible copying of the constituent elements of the work that are original. Copying must be established by a preponderance of the evidence. Absent direct evidence, copying may be established by showing: (1) that the accused infringer had access to the copied work, and (2) that the accused work is a *substantially* similar copy of the protected work.

Prior to making a comparison between the two works, courts typically separate the protectable expression from the unprotectable underlying idea(s) and/or concept(s) contained in the work. The copyrighted expression identified is compared to the accused work using the so-called "ordinary observer test." Among other things, the ordinary observer test determines whether the points

of similarity exceed the points of dissimilarity.

2. Indirect Infringement

Under theories of vicarious and contributory liability, parties that are themselves not direct infringers may nonetheless be liable for facilitating copyright infringement by third parties. Vicarious liability can be imposed on a party that "has the right and ability to supervise infringing activity, and also has a direct financial interest in such activities."[85] Contributory liability can be imposed when a party "with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another."[86] If a party distributes a product capable of commercially significant noninfringing uses then it will not be held liable under either theory.[87] However, if a party distributes a product with the object of promoting its use to infringe copyright, the party will be held liable for resulting infringement by third parties.[88]

3. Defenses

There are several defenses available to an accused infringer, which are discussed below:

- Invalidity; the accused infringer can assert invalidity because the copyright lacks originality and the copyright law does not protect the subject matter of the work.
- Fair use; fair use of a copyrighted work does not constitute infringement. It is an affirmative defense.
- Innocent infringement; intent is not a factor when determining if there is infringement, since if there was copying, there is infringement. However, intent of the accused infringer is taken into account when considering damages. If the infringer was unaware that he or she was infringing, the award granted may be minimized. If a copyright notice is omitted from a protected work, and the infringer shows that he or she was misled by the lack of notice, the defendant would not incur liability prior to receiving notice that the work is registered.
- Other defenses; other defenses to copyright infringement include abandonment, estoppel, laches, misuse, and other equitable defenses.

4. Remedies

The copyright owner, if successful in litigation, may be entitled to remedies in the following categories:

- Monetary recovery; the copyright owner can recover actual damages suffered and those profits of the infringer not included when calculating actual damages. The owner need only prove the amount of gross revenues and the infringer has the burden of proving all legitimate deductions from that figure.
- Statutory damages; statutory damages are an alternative to actual damages and profits. The range of statutory damages is from $750 to $30,000, and if

willful infringement is found, the statutory award can be raised to $150,000.[89]

- Injunctive relief; injunctions are available against all defendants except the U.S. Government, and a successful plaintiff is usually able to receive a permanent injunction.
- Other relief; the court can impound and dispose of the infringing articles. If registration was effected before the infringement began or if the plaintiffs receive their registration within three months of first publication, they can seek the recovery of attorney's fees. Finally, under certain circumstances, the accused infringer could be liable for a criminal offense.

K. Computer Software

Copyright is the predominant method of protecting computer software. As a result of the Computer Software Act of 1980, computer programs are protectable as literary works. A computer program is a set of statements or instructions that is used directly or indirectly in a computer to obtain a certain result. It is protected by a copyright whether it is in object code form (for example, a series of zeros and ones) or in source code format (written as human readable computer instructions). Flow charts, pseudo-code, and diagrams of the program receive the same protection as the computer program itself. A computer program that is stored in the memory of a computer is fixed in a tangible medium of expression. To be eligible for copyright protection, the computer program must contain originality – simple software or databases may not qualify.

A difficult area of copyright protection for computer programs is defining the line between the protectable expression and the unprotectable idea, procedure, process, system, method of operation, concept, principle, or discovery. Copyright protection is also not available for the program logic, algorithms, or layout.

Some special rules apply to the exclusive rights of a copyrighted computer program and to what must be deposited to obtain registration. Unlike purchasers of other protected literary works, purchasers of copyrighted computer software cannot rent, lend, or lease their copies. There is also special fair use exception for purchasers of computer programs, which allows them to make a copy for its use in a machine or for archival purposes.

The deposit requirements for software programs may be satisfied by submitting one copy of a number of pages in a form that does not require the assistance of a machine or device, together with the page or equivalent unit containing the copyright notice. The number and identity of the pages varies depending on whether the program contains or does not contain trade secrets and whether the program is new or revised. If a user's manual or other published documentation typically accompanies the software, this should also be included with the deposit.

The copyright notice for a computer program should be placed in as many locations within the program as possible. For example, notice can be placed at the beginning of the object code or at the end of the work, on the first screen displayed, continuously on each screen, or on a label affixed to the storage medium or on the first page of the program's source code listing. It is important to remember that each separately published version must be *separately* registered to obtain the full benefits of registration.

L. Other Sources of Information About Copyrights

The Copyright Office provides a free electronic mailing list which issues periodic messages on copyright-related items of interest. See *www.copyright.gov/newsnet*.

The Copyright Office also has numerous circulars on topics discussed in this Chapter. Of interest, and which can be obtained from the web site *www.copyright.gov*, are:

Circular 3	Copyright Notice
Circular 7d	Mandatory Deposit of Copies or Phonorecords for the Library of Congress
Circular 9	Works Made for Hire Under the 1976 Copyright Act
Circular 12	Recordation of Transfers and Other Documents
Circular 14	Copyright Registration for Derivative Works
Circular 15a	Duration of Copyright
Circular 31	Ideas, Methods, or Systems
Circular 32	Blank Forms and Other Works Not Protected by Copyright
Circular 33	Computing and Measuring Devices
Circular 34	Copyright Protection Not Available for Names, Titles, or Short Phrases
Circular 38a	International Copyright Relations of the United States
Circular 38b	Highlights of Copyright Amendments Contained in the Uruguay Round Agreements Act (URAA)
Circular 40	Copyright Registration for Works of the Visual Arts
Circular 41	Copyright Claims in Architectural Works
Circular 45	Copyright Registration for Motion Pictures, Including Video Recordings
Circular 50	Copyright Registration for Musical Compositions

Circular 56	Copyright Registration for Sound Recordings
Circular 61	Copyright Registration for Computer Programs
Circular 73	Compulsory License for Making and Distributing Phonorecords
Circular 75	The Licensing Division of the Copyright Office

V. Trade Secrets

A. Case Study Introduction

You are general counsel for a large international corporation. It is only a couple of weeks until your company plans to roll out its newest product line. You find out that a relatively new employee has quit, submitting his resignation via e-mail the previous night. After asking around the office, you find out that this employee was getting along well with everyone and doing a good job; everyone was surprised by his departure. After discovering he had access to your latest and greatest technology, you realize that the employee was hired by your biggest competitor. What do you do?

The General Counsel for Thales Avionics Inflight Systems in Irvine, CA was faced with this question, and responded decisively.[90] First, the legal department had the former employee's computer quarantined. The information technology ("IT") staff reviewed the ex-employee's e-mails and found that the employee had downloaded proprietary information and sent it to his personal Yahoo! account. The IT staff also discovered several e-mails between the former employee and his new employer. Having gathered this evidence, the company filed suit and sought a temporary restraining order and a writ of possession to seize the former employee's computers, both of which were granted. Next, the company filed suit against the former employee and his new employer for breach of contract, misappropriation of trade secrets, and fraud.

B. Definition of Trade Secrets

The area of trade secret law, originally grounded in common law, is now defined in several statutes and secondary sources. The Uniform Trade Secrets Act ("UTSA"), a codification of trade secret common law, has been adopted in 45 states and the District of Columbia.[91] However, each state has adopted a slightly different definition of "trade secret."[92]

The UTSA defines a trade secret as:

> [I]information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
>
> (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
>
> (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Prior to the UTSA, trade secret law was addressed in the Restatement of Torts.[93] Jurisdictions that have yet to adopt the UTSA still apply the common law and/or the Restatement of Torts. The Restatement of Torts defined "trade secret" in a slightly different manner. It listed six factors that courts should consider in identifying whether a trade secret exists:

1. The extent to which information is known outside claimant's business;
2. The extent to which information is known by employees and others inside the business;
3. The extent of secrecy measures;
4. The value of information to the business and competitors;
5. The amount of effort or money expended in developing the information; and
6. The ease or difficulty with which the information could be properly acquired or duplicated by others.[94]

While the Restatement of Torts and the UTSA provide seemingly detailed trade secret definitions, jurisdictions have interpreted the language differently. For some jurisdictions, whether or not certain corporate information is considered a trade secret is a question of fact. The following sections seek to provide a sufficient foundation and describe, in greater detail, the trade secret elements as they may apply to your corporation.

1. Subject Matter

While the UTSA definition has been adopted in all but eight states, a number have taken the liberty to expand the definition by statute or case law. For instance, Oregon law expands the scope of trade secret protection to include drawings, cost data, and customer lists.[95] Some courts have also expanded the definition and stated that "no category of information is excluded from protection as a trade secret because of its inherent qualities."[96] However, an employee's general skills and talents gained through his or her employment are not generally considered protectable, and can be restricted only through terms of a non-compete agreement. Similarly, while customer lists can be trade secrets in

many states, some courts have held that former employees may use contact information for customers that they have worked with for long periods and whose information they have memorized. Additionally, a "trade secret" is defined in numerous statutes such as the Economic Espionage Act.[97] Where applicable, these statutes should be referenced.

2. Economic Value

While much information is capable of becoming a trade secret, only information that provides actual or potential economic value to its owner can achieve trade secret status. This requirement is logical, yet probably unnecessary. Protecting information costs money. The costs of protecting trade secrets is circumstantial evidence as to its value.[98] Thus, it is unlikely that a company would spend the amount of money required to meet the reasonable secrecy burden if the trade secret was of no value to the company. Further, if the trade secret was of no value, a company would be unlikely to pursue litigation for its misappropriation, as litigation is costly and, in most cases, it would be difficult to meet the damages requirement.

3. Not Generally Known or Readily Ascertainable

If a company's "secret" provides it with economic value, it can be a trade secret so long as the information is not generally known or readily ascertainable in the relevant industry. Matters of public knowledge or general knowledge in an industry may not be claimed by an industry member as its trade secret. However, where information is in the public domain, but it is rather obscure and its application not readily ascertainable to an industry, the trade secret status will not be defeated.[99] Further, even if information is generally known in one industry, it can still be protected as a trade secret when applied to another industry.[100]

Trade secrets are not "generally known" in an industry simply because some competitors use the same information. In fact, more than one company can concurrently claim the same information as a trade secret, so long as the companies did not use improper means to obtain it.

4. Subject to Reasonable Secrecy Measures

Even if a company's secret is not generally known or readily ascertainable in its respective industry, a company must demonstrate that it used reasonable measures to protect the secret. Clearly, absolute secrecy is not required; otherwise, a business could not make use of its information. A company must only use measures reasonably calculated to protect its trade secrets.

Whether secrecy measures are reasonable depends on various factors such as the extent of disclosure required to adequately utilize the trade secret, the extent to which information is disclosed to others and their relationship to the owner,

and the measures taken to protect the secret information. Typically, trade secret information is protected using confidentiality agreements and limited disclosure only where necessary. However, physical barriers and restricted access also should be used to protect trade secrets that can be gleaned from passersby. Courts do not expect corporations to use excessive or extremely expensive measures to protect their information;[101] however, accidental disclosure through carelessness has destroyed protection in some cases.

C. Why Use Trade Secret Protection?

There are many cases where trade secret protection offers the best means to protect your corporation's proprietary information. First, trade secret protection lasts for as long as the information meets the definition of a trade secret. Consequently, as long as the information is not generally known or readily accessible and is still subject to reasonable protective measures, the trade secret can be protected indefinitely. By contrast, patent rights are granted for only 20 years from the date of filing. The company most notable for taking advantage of a trade secret's unlimited duration is the Coca-Cola Corporation. There is an ingredient in Coke called "7X" that has been protected as a trade secret for decades.[102] If Coca-Cola had patented the ingredient, it would have had to disclose the ingredient in the patent application, and after 20 years anyone could legally have copied the Coke formula.

Patent rights have a limited duration in that an issued patent grants the right to exclude others from practicing what has been patented for that 20-year period. A trade secret, on the other hand, may be used by others that have obtained the information either independently or through reverse engineering.[103] Reverse engineering is where a competitor analyzes the public, finished product to determine the product's components or process used to make the product. It is generally not illegal for a competitor to use reverse engineering to discover trade secret information.

Sometimes, trade secret law is the only option for protecting company information. Patents can be obtained only on discoveries that are new, useful, and non-obvious. Where a company's secrets would not meet the burdens necessary for obtaining a patent, trade secret protection is the only option.[104] Further, a much broader scope of information is protectable by trade secret law than is protected by patent law. For example, customer lists are not patentable. Thus, where other means of protecting proprietary company information are unavailable, trade secret law is likely an alternative and may provide the necessary protection.

D. Misappropriation of Trade Secrets

1. Definition of Misappropriation

If a company chooses to protect its information using trade secret law, the company will have a claim for misappropriation if the information is being used unlawfully by a competitor. The UTSA defines misappropriation of trade secrets as:

a. Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means;
b. Disclosure or use of a trade secret of another without express or implied consent by a person who either:
   (i) Used improper means to acquire knowledge of the trade secret;
   (ii) At the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was derived from or through a person who had utilized improper means to acquire it, was acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use, or was derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
   (iii) Before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

One can be liable for misappropriation either by acquiring the trade secret or by disclosing it. The act is defined in this way to expand liability to not only the actor that discloses the information (i.e., the faithless former employee), but also to the corporation that hires such employee and benefits from the stolen trade secret. Therefore, when a company hires new employees, it needs to consider protecting its own trade secrets, as well as protecting itself from liability for misappropriation of others' trade secrets.

2. Remedies for Misappropriation

Plaintiffs may recover a variety of damages in a suit for trade secret misappropriation. In addition to unjust enrichment and compensatory damages, including a reasonable royalty where appropriate, plaintiffs can recover injunctive relief against actual or threatened misappropriation of trade secrets.[105] Further, in states that have adopted the UTSA, courts may grant treble damages for willful and malicious misappropriation as well as attorney's fees to the trade secret owner. While a range of damages can be recovered for misappropriation, the plaintiff has the burden to establish the existence of a trade secret and that reasonable secrecy measures were employed to protect that secret.

E. Protecting Your Trade Secrets

Why is it important to protect your trade secrets? In a case of misappropriation of your trade secret, a court will first establish that the stolen information is in fact a trade secret (i.e., not generally known in the industry and protectable subject matter). However, the court's decision is often based on the extent to which the company used reasonable measures to protect its information. In trade secret law especially, "the law helps those who help themselves." Therefore, it is important to protect your proprietary information to ensure that it is upheld as a trade secret in the event of any misappropriation.

1. Reasonable Secrecy Measures

Before you can begin employing the correct strategies to protect your corporate trade secrets, you must identify the information to be protected and take stock of the current methods used to protect this information. This should be accomplished by "identifying [the information], tracing its flow or accessibility within [your] organization, and identifying the offices and people through whom the information passes."[106] This process will help identify any security concerns and heighten employee awareness of the need for confidentiality.

2. Coping with the Internet

Over the past two decades, the rising use of the Internet has created new burdens for trade secret protection. The two main areas of concern are e-mail and company web pages. The first concern, e-mail, can be addressed through use of a corporate e-mail policy. An e-mail policy can buttress a corporation's reasonable secrecy measures in a claim for misappropriation and, as a practical matter, can heighten employee awareness about corporate confidentiality.

Company web pages also have been a source of inadvertent trade secret disclosure. In many cases, companies post customer and distributor information, product information, and information about key employees. This information can be trade secret information itself, or it can help your competitors uncover your trade secrets. For example, information about a company's suppliers or recently-hired employees can provide clues to competitors as to the company's latest developments. Therefore, companies should review their web pages and consider the effect of placing the information out in the public domain.

F. Practical Necessities for Trade Secret Protection

Many individuals are privy to trade secret information. Obviously, high-level employees that work with or develop the trade secret must be subject to confidentiality obligations. Less obvious, however, are the consultants, customers, licensees, and administrative staff that can destroy a trade secret through inadvertent or intentional disclosure. Therefore, corporate policies must be in place

to prevent these disclosures beforehand and to support a misappropriation case in such event.

1. Non-Disclosure/Confidentiality Agreements

At the commencement of employment, new hires should be required to sign confidentiality agreements. These agreements should specify that the company has trade secrets and confidential information that it considers proprietary. Further, the agreement must require the employee to keep such information confidential and agree not to share the information, without the employer's consent, with non-employee third parties or employees who do not need the information. The duration of any confidentiality agreement should begin at signing and extend indefinitely, even beyond the employee's departure.

2. Exit Interview Checklist

Every time an employee terminates his or her relationship with a company, for whatever reason, the company should conduct an exit interview. The purpose of the exit interview is to determine what information the employee had access to, to obtain all proprietary company materials, and to remind the employee of the confidentiality agreement he/she signed and that the agreement extends beyond his or her employment. Exit interviews should be documented and followed by letters to the former employees, reminding them of their obligations.

3. Post-Departure Investigation

Where there is reasonable suspicion, a company should conduct an investigation after the employee departs. The investigation should include interviews with company employees as well as the vendors/contractors who worked with the departed employee. In addition, the former employee's computer system, phone records, PBX reports, pager records, travel records, and building access history should be scanned for suspicious activity.[107] It is important to conduct the post-departure investigation immediately following the employee's departure so as to prevent destruction of any requisite evidence for a misappropriation claim.

4. E-mail Policy

Along with a confidentiality agreement, employees with company e-mail access should be required to sign an acknowledgment of a corporate e-mail policy. The e-mail policy should put the employee on notice that personal e-mail using the company system is prohibited, the company claims ownership in the e-mail system and all e-mails transferred through the system, and employees are prohibited from sending confidential information to a non-employer e-mail address without obtaining prior approval. An e-mail policy has the effect of warning employees of the dangers of e-mail usage while also providing another means to support the existence of reasonable secrecy measures.

5. Clean Desk Policy

Many companies are requiring their employees to remove all work papers from their desks at night or, in some cases, place highly confidential documents in locked filing cabinets. The concern with papers strewn about one's desk is that it gives visitors, both internal and external, an opportunity to browse through the documents. If trade secret information were to be disclosed under these circumstances, it is possible that a court might not find use of reasonable secrecy measures to protect the trade secret. To a lesser degree, there is a risk of corporate espionage where competitors may hire cleaning crews to obtain confidential information after hours.[108]

VI. Creating a Corporate IP Protection Plan That Makes Sense from Both Legal and Business Perspectives

Intellectual property has been a significant factor in the growth of the United States economy since the Industrial Revolution. Without the protection afforded by this country's IP laws, the incentive to invest in research and development and to commit at-risk capital and other resources in new business enterprises would falter.[109]

The continued effectiveness of the U.S. IP system – patents, trade secrets, trademarks, and copyrights – depends not only on the sound administration of the relevant laws, but also on the skill and dedication of the thousands of IP counsel – in private practice and in corporate IP departments – who represent the interests of inventors, developers, manufacturers, and marketers in new products and services. With the USPTO annually receiving hundreds of thousands of patent and trademark registration applications, the task of obtaining valid IP assets and protecting them against infringement is a challenging one. Congress and the Supreme Court are shifting law once-settled for decades. Patent and trademark applications must be prepared with greater care than ever before and supported with well-documented records. Thorough prior art, freedom-to-operate, and trademark availability searches are more necessary now because of the increased risk of conflicting patent and trademark rights among competitors. The trend toward more foreign sales, licensing, and manufacturing poses new problems for IP attorneys who were once concerned mainly with protecting their clients' rights in the United States. New procedures for electronic filing and access to patent applications at the USPTO requires IP attorneys to constantly update filing and docketing practices.

Given the huge sums being invested in research, development, and marketing, and the prospects of enormous financial benefits to companies that choose to enforce or license their IP rights – not to mention the ever-growing need to avoid liability to owners of valid IP assets – it is not surprising that corporate managers have been giving increased attention to the function of IP departments within their organizations. This chapter is intended to help the ACC's members reassess and improve their methods of handling IP work. This section explores the types of corporate resources and various organizational structures available for carrying out the IP function, and reports on how companies are exploiting new opportunities for achieving and maintaining good communications and cultivating healthy working relationships among a company's IP counsel and other personnel. The goal? Achieving an operational "critical mass" that is well-positioned to fulfill the company's long-term objectives.

A. Identifying Internal Company Resources for Creating an IP Protection Plan

The major non-administrative job functions of in-house IP counsel are searching, filing, licensing, and assuming responsibility for enforcing and defending patents, proprietary information, and trademarks. The effective pursuit of these functions requires a cooperative working relationship between in-house IP counsel and the company's research, development, production, marketing, and general legal departments.

- Searching – When one presents a potentially patentable invention or a new name for a product or service, companies normally make a preliminary "prior art" or trademark "availability" search. The searches can be conducted in the files of the USPTO or on-line to determine the likelihood that the invention can be validly patented or if the trademark can be registered. Simultaneously, or subsequently, a "freedom-to-operate" search is usually performed before an invention or trademark is commercialized, in order to determine if doing so would conflict with the IP rights of third parties. If a question of infringement arises after a patent is obtained or a trademark is registered, it is then customary to determine whether the patent or registered trademark, if asserted against unauthorized users, is likely to hold up in court or whether a licensing arrangement should be considered.
- Filing – Once the feasibility of obtaining a valid patent or trademark registration has been determined, an application is filed in the USPTO and, in due course, may be filed in other countries as well. To support a successful patent application, the company's IP counsel will usually call upon inventor(s) to furnish or identify sources of relevant information and data such as original sketches, laboratory notebooks, engineering drawings and specifications, and, in some cases, samples, models, or prototypes of the inventions.
- Licensing – IP counsel are usually called upon to negotiate the granting of licenses to, and the acquisition of licenses from, other companies, as appropriate. This may be done to avoid receiving -- or the assertion of -- an

infringement claim or to take advantage of an improvement not developed by the company. In some instances, companies trade licenses to improve operations in both companies. This is typically called "cross-licensing."

- Litigation – While it is essential to protect IP assets against infringement, it is equally important to defend the company against claims of infringement. Much time and effort goes into the gathering of evidence, the securing of witnesses, and, if necessary, the preparation of cases for trial. The advent of e-discovery as a litigation tool under recently-revised Federal Rules of Civil Procedure has increased the challenges of discovery compliance enormously.

I. Where IP Work Is Performed

Most large industrial firms employ in-house IP counsel. Because of the nature of their businesses, some use outside IP counsel only on an as-needed basis. Companies that have in-house IP counsel usually also rely on outside counsel for special services such as furnishing opinions of counsel on IP matters, trial work and dispute resolution, or the procurement of foreign patents and trademarks.

Companies that have in-house IP counsel usually place the IP function in one of three basic organizational positions. For example, some believe that IP work can be done most efficiently within the framework of the company's general law department. Others, preferring the closest possible relationship between those engaged in patent work and those engaged in inventions, locate the function in the research or engineering divisions. Still others have established separate IP departments that report to a member of senior management.

a) Factors Affecting Location of IP In-House Counsel

Differences in the location of a company's in-house IP work mainly stem from the relative importance that a company places on the legal – as opposed to the scientific and technical – aspects of IP in-house counsel's job functions. A company should consider its size, its over-all organizational structure, and the nature of its business as the principal factors in determining whether a technical or a legal orientation would be best suited for the location of IP in-house counsel.

There is also a difference of opinion as to whether IP work should be centralized or decentralized, but most favor a single, centralized unit. When the number of IP in-house counsel is not large and the product areas with which they are associated are not unduly complex, reporting to the legal department may provide better control. However, in situations where the research areas are broad and of a highly technical nature, it may be appropriate to have IP in-house counsel located in closer proximity to divisional management to facilitate communications.

b) Location Within the Legal Department

Some companies locate their in-house IP counsel within the general law department. Especially where in-house IP counsel are relatively few in number, they are likely to be positioned as regular members of the general law department.

In companies where the number of in-house IP counsel is relatively large, they are usually organized as a separate section or department of the legal division. The law department and the IP section or department constitute the legal division headed by the company's general counsel, to whom the head of the IP section or department normally reports.

Overall supervision of the IP function by the general counsel is appropriate when needed to centralize control of the company's overall IP and related general law portfolios. Such control contributes to efficiency through coordination of IP and other legal work, permits better use of the entire law staff, and encourages proper execution of corporate policy matters. Intellectual property matters frequently impact larger policy questions, and some executives hold that a broader view can be taken if IP work is done by in-house counsel working in the law department. Because of the high general law content of some IP matters, the close proximity of the two legal groups also makes it less necessary for patent counsel to become a legal "jack of all trades." When separated from general counsel, patent counsel will at times try to solve general legal problems and can gravitate toward giving general legal advice to the departments they serve.

Affiliation with the general law department also helps ensure that IP in-house counsel will maintain an objective viewpoint such that their advocacy as lawyers is focused on the company's benefit as a whole rather than on a particular researcher or division.

Some companies want their in-house IP counsel to be organizationally independent of those who make the inventions in order to ensure that the attorneys can exercise independent judgment. For example, there is a considerable advantage in having in-house IP counsel make independent appraisals of the advisability of filing an application for a patent or trademark registration. Such independence is facilitated by having IP in-house counsel as members of the legal department.

Associating with other corporate lawyers also benefits in-house IP counsel professionally; the interchange of ideas between IP attorneys and general counsel increases the knowledge of both. They will tend to maintain more of an "attorney-at-law" approach to the company's IP problems rather than viewing themselves as technicians. This fosters proper relations between the company's in-house IP counsel and its scientists and engineers. Conversely, general counsel (and management) can garner a sharper understanding of IP issues impacting broader corporate strategy.

However, locating in-house IP counsel within the general law department has certain disadvantages. Some may find that it tends to diminish the importance of their positions and, as a result, may lead to difficult working relationships. Furthermore, some believe that supervision by the general counsel is not always appropriate for a function that requires frequent attention to technical issues.

c) Centered in the Research or Engineering Department

Some companies locate their patent attorneys in the research laboratory or engineering building to facilitate their accessibility to scientists and engineers and vice versa. Such close contact is believed to bring about desirable work relationships between attorneys and inventors.

From a supervision standpoint, it is also advantageous to have in-house patent counsel report to an executive familiar with the engineering and research aspects of the company's business. Such an executive will better understand the problems that form the greater part of the patent attorney's work.

Some companies choose not to locate their patent functions in their research and engineering departments and avoid having research-oriented patent staffs or placing patent counsel within the technical department(s). These companies believe that such placement would require members of the patent staff to work under and be directly responsible to their principal "clients." Such a relationship might deter members of the patent staff from exercising independent professional judgment in matters where objectivity and independent thought is essential in dealing with the strictly legal questions that occur in patent work.

To avoid liaison problems, companies that locate the patent function in the research or engineering unit generally emphasize, usually through job function descriptions, the importance of a good working relationship between in-house IP counsel and general legal counsel. This up-front approach is considered essential because it is difficult to partition IP and general law work completely. IP matters such as trademarks, copyrights, litigation, and licensing typically involve general law problems. Litigation is usually handled or managed by the company's general counsel rather than by the patent counsel. In some companies that have patent departments, trademarks and copyrights are also handled by the general law department.

For the most part, companies that have general law departments but who locate patent counsel in research or engineering divisions obtain cooperation between the two without formal arrangements. For example, in-house IP counsel may at times be engaged in contract, tax, or other matters not directly related to research and development (R&D). In such instances, he or she reports directly to the party concerned, keeping the vice president of R&D advised. An arrangement that may be especially satisfactory is to have an experienced IP attorney in the legal department who acts as a liaison with the patent department located

in the research division. In that way, the general counsel can be kept up-to-date on all relevant developments such as patent interferences and other important proceedings in the USPTO.

d) Reporting to Senior Management

In-house IP counsel may have a place in the organization that is independent of both the Research and Development (R&D) and legal departments. Such counsel reports directly to a member of general management. Other companies locate their IP in-house counsel both at headquarters and in their divisions. In others, IP in-house counsel are located in the divisions only and report to the divisional general managers.

e) Liaison with Other Departments

Where in-house IP counsel is organizationally independent of the R&D and legal departments, the liaison with these units can be straightforward and uncomplicated. Cooperation is facilitated by having both general counsel and IP groups report to the same corporate officer. Contact between patent attorneys and research people appears to be satisfactory where the former report to members of the company's senior management, while at the same time having a "dotted line" relationship with the Head of R&D.

f) Advantages of Supervision by Senior Management

The major advantage of placing the IP department under the direct supervision of members of top management is that it provides for the efficient control of the IP function.

These companies have found that in-house IP counsel's work can be best coordinated with that of other departments in the context of a separate staff position. The senior management executive to whom in-house IP counsel reports can also help in solidifying the cooperation of other departments. Some companies, however, feel that in-house IP counsel and members of the general law department should answer to the same senior executive, since this facilitates coordinating the work of both.

Policy decisions are frequently required in IP work. In such cases, direct contact with senior management is necessary and is most easily achieved when provided for by the normal reporting arrangements. At the same time, such close interaction ensures that all important IP matters are brought directly to the attention of senior management. In addition, IP in-house counsel is less likely to be distracted by non-patent matters, thus making it possible to give full attention to their own specialties.

2. Organization and Allocation of Responsibilities Within an IP Department

The typical corporate IP department is managed by a chief IP counsel, assisted by one or more associate IP counsel. Each associate IP counsel is responsible

for directly supervising a number of staff attorney "assistant IP counsel." The department is usually organized somewhat along the lines of a law firm, with partners and associates, as well as clients, who are the company's various business teams and research groups. As in most law firms, each individual member of the department's professional staff retains responsibilities for matters on his or her docket on a continuing basis.

The primary function of this "group" structure is to provide a means of supervising and monitoring the flow of patent application preparation and prosecution. The group leader allocates work within his group, in some instances assigning an individual full responsibility for a technical area, and in others assigning work in an area to several professionals in order to broaden their experience and provide depth of staffing. Some overlap can occur between professionals in different groups working for one business or research team because of efforts to assign specific work to individuals best qualified to handle it and because the technical content of the work of each laboratory group varies with time.

For work other than patent solicitation, the group system need not be as rigid. Particularly for litigation and major license agreements, the chief IP counsel allocates work on the basis of workload and individual capabilities. Nevertheless, group leaders must be kept apprised of their subordinates' work in all areas in order to oversee the work of the relevant business team and laboratory managers, and to provide some degree of backup.

For the average-size company, this would seem to be a workable system. That is, the IP department is not so small that it admits of no internal structure, nor so large as to warrant rigid compartmentalization. However, there should be: (1) a bias in favor of allocating all work within the scope of each group's segment of the company to members of that group; (2) an effort to define and explain clearly how the group structure is intended to operate; and (3) an effort to communicate to the group leaders and all concerned the reasons for not adhering to group lines in particular instances.

Paramount here is a recognition of what motivates and rewards sound professional work in the IP department. Unlike a law firm, where there are no rigid limitations on the number of partners and an individual's potential for increased financial and professional reward is primarily limited only by his capabilities, the corporate pyramid restricts upward mobility within a company. Hence, the corporate professional must look in greater measure to the promise of more challenging work and increased independence as a reward. Inescapably, for most corporate professionals, responsibility for litigation, licensing, and other major work is seen as reward, and the lack of it as a penalty. Guidelines for allocation of this type of work should be clear, and departures from them explained. Failure to do so is detrimental to morale. This does not materially

limit management's ability to distribute work as they see fit, but it merely places upon them the burden of explanation.

B. Key Personnel for Achieving "Critical Mass" Within an IP Department

The role of in-house IP counsel is an important function within the company, and IP in-house counsel's job functions should be appropriate to the structure of the organization, to the skill sets of the individuals involved, and to the specific IP problems with which they are most frequently confronted.

The in-house patent attorney who files and prosecutes a U.S. patent application is usually the person best qualified to work with foreign patent counsel in obtaining protection in other countries. It is rare for in-house patent attorneys, even those who specialize in international work, to be best suited for putting the applications into the proper form for filing in the patent offices of the various foreign countries. Such work is best left for the attorneys in foreign countries. The same holds true for trademark protection. Domestic and foreign patent licensing usually involves a combination of general and patent law problems. Except in the case of a pure patent license, it may be preferable for the general counsel to assume responsibility for preparing the overall license, which often involves problems of a general law nature, and to seek advice from in-house IP counsel on the more specialized questions. Patent interferences involve extraordinarily complex issues of technology and patent law, which patent lawyers – by virtue of their education or training – are usually best qualified to handle.

1. Assignment of IP Functions

a) Duties of Chief IP Counsel

The chief IP counsel should be responsible for the overall direction of the company's IP activities, including the filing of applications, the acquisition, disposition, and licensing of patents and trademarks, handling infringement matters, and developing and maintaining contacts with relevant government agencies, customers, professional associations, and outside IP counsel.

In addition, the chief IP counsel generally has other duties and responsibilities related to the overall administration of the company's IP operation. Some of these are best left to lower-level members of the in-house IP staff to handle.

The following is a representative list of the chief IP counsel's duties:

- Plan, coordinate, and direct the overall IP program of the company, including policies, practices, and procedures;
- Screen inventions with the help of other departments and render opinions as to the patentability of new products and processes;
- Serve as a point of contact for outside inventors and counsel;

- Establish procedures concerning employee agreements relating to the disclosure and ownership of inventions;
- Arrange for the exchange of information between the company's domestic and foreign in-house IP operations;
- Maintain contact with the company's general counsel;
- Participate with the company's accountants in the administration of royalty payments
- Develop and maintain intelligence on patents of particular interest, including the IP assets of other companies, particularly the competition;
- Establish and oversee the company's patent law library;
- Evaluate and assure compliance with IP policies of industrial organizations or government agencies that the company is involved with.

In addition to these direct responsibilities, the chief IP counsel assumes a functional responsibility to advise, inform, and assist other departments that become involved in patent, licensing, and trademark matters.

b) Participants in Foreign IP Procurement

Foreign IP procurement is almost always handled by non-U.S. law firms specializing in such matters. Some companies use a combination of foreign law firms and resident patent attorneys/agents in those foreign countries where it has affiliates whose offices are able to support such a function.

The allocation of responsibility for deciding whether or not to file for a foreign patent varies among companies. In some instances, the decision is left to the company's staff patent counsel in consultation with the executive in charge of overseas operations. In other cases, it is left to each domestic or overseas division affected by the patent.

c) Participants in Trademark Protection

Responsibility for domestic trademark protection is generally assigned to IP in-house counsel. Foreign trademark protection is usually assigned to specialized outside counsel, which is often the same firm that handles the company's overall patent work in those countries. However, there are some exceptions to these assignments of responsibility, due in part to the close association of trademark activities with marketing.

The association of trademarks with the marketing function often influences the assignment of trademark work within a company. Sales subsidiaries often employ their own legal counsel whose duties invariably include trademark protection. Patent matters are usually handled by the parent company as discussed above.

d) Participants in IP Licensing

Corporate sales and manufacturing executives often initiate the creation of licensing arrangements, including preliminary negotiations. Final negotiations

are generally the responsibility of senior management, IP in-house counsel, or the general law department. In some small, specialized industrial products companies, patent licensing will often be the responsibility of the president, with the concurrence of the company's chairman.

Regardless of who negotiates the license agreement, the company's legal counsel should enter the picture at an early stage. Counsel's role can range from merely advising the negotiator to assisting in or even conducting the actual negotiations. In-house IP counsel should also draft the license agreement, with in-house IP counsel usually providing the legal guidance in licensing matters. Occasionally, however, the company will assign the task to the general law department. Resident outside licensing specialists may be called on as needed, especially in order to deal with foreign licenses.

e) Participants in IP Interferences and Litigation

Patent and trademark interferences or infringements are generally the responsibility of IP in-house counsel, but senior management may step in when the matter is of sufficient importance. Assistance of general counsel and outside counsel is obtained when needed, particularly when litigation is involved.

Companies sometimes look to the senior management for settlement of IP interferences and litigations, after receiving recommendations from counsel and the management of manufacturing and engineering.

2. IP Committees

Patent and trademark committees are often used, especially in large companies, to help shape the company's IP policies and to review and evaluate possible courses of action. These are usually standing committees that meet regularly. In some instances, particularly in smaller companies, IP committees, if they exist at all, may meet on an *ad hoc* basis to discuss items of interest as they arise. The most common arrangement for carrying out IP committee operations is a single committee that considers both domestic and overseas patent and trademark matters. Other arrangements include:

- Two corporate committees, one for patents, the other for trademarks;
- A corporate IP committee plus a subcommittee in each division or research center;
- Divisional IP committees with no corporate committees.

a) Membership

The identity of participants in IP committee deliberations will depend on the committee's purpose and whether the group is corporate or divisional. Membership in corporate groups that help shape IP policies and review pending projects include such executives as the chief IP counsel and the various vice presidents for R&D and marketing.

In some instances, the divisional managers are included as members of cor-

porate IP committees. When both domestic and international IP matters fall within the committees' jurisdiction, the head of the international division should be a committee member. In addition, staff members of departments involved in a particular patent project are usually called on to attend committee meetings.

Corporate IP committees are, in some instances, geared to a slightly lower level of management with the same departments represented as noted above. For example, a company may have two corporate patent committees. One, called "Invention Committee," includes representatives of research, marketing, patents, and the chemical division. They are at the level of assistant director or department heads. The second committee, "Foreign Filing and Maintenance," includes representatives of the same departments but one notch lower in rank. This committee also has a representative from the international division.

Patent committees located at research centers or divisions include such members as:

- Member of patent department serving the divisions;
- Division manager or his or her representative;
- Head of the research center or his or her representative;
- Representative from production.

b) Activities

The most common IP committee activity is screening and evaluating proposed and pending patent and trademark applications. Other activities include:

- Shaping overall patent policies;
- Recommending to senior management the handling of policy questions presented by the IP department;
- Establishing guidelines on licensing, interference, and settlement problems;
- Setting the terms and conditions under which licenses will be offered to other companies;
- Evaluating strategies and impact of compliance with IP policies of industrial organizations and government agencies;
- Prescribing policing methods to locate infringers and to take steps for licensing or collection of damages;
- Determining business necessity for seeking and maintaining domestic and foreign patents and trademarks;
- Approving or disapproving the maintenance of pending applications;
- Determining awards for worthwhile employee patent suggestions;
- Reviewing domestic patent applications for possible foreign filings;
- Reviewing the foreign patents held to determine the desirability of continuing to pay annual maintenance fees and taxes;

C. Internal Marketing of Corporate IP Legal Services

1. Awards to Employee Inventors

Most companies have adopted systems for rewarding employee-inventors. "Suggestion system" awards accomplish a similar result in other companies. Invention awards programs are generally made available to all regular employees should they have a patentable idea. However, the members of research and engineering staffs are usually the principal beneficiaries.

a) Cash Awards

The basic reason for not awarding employees-inventors for their efforts is that ideas and inventions are generally part of their jobs and recognition should come in the form of salary increases and promotions. Rights in all inventions made by employees are usually assigned to the company as a condition of continued employment. Other companies preclude cash awards to employee-inventors as a matter of policy.

There are other reasons for not paying cash awards to company inventors. One is that not all valuable ideas are patentable. Ideas that may result in innovation range from obviously unpatentable ones to those that the company tries to protect as much as possible. The value of these ideas, however, may have no relation to their patentability and it would be manifestly unfair to pay cash awards for them.

Another reason for the reluctance of many companies to grant cash awards for inventions is that it is difficult to distribute them fairly. Most successful enterprises are the result of a team effort and it would be difficult to allocate credit without injustice. Furthermore, since, for the most part, projects are assigned to individuals, cash awards for successful outcomes could depend more on the assignments than on the skill of the individual, and such awards can engender ill will among the company's employees.

For the most part, cash awards are token payments that are not to be construed as placing a value on the idea or patent. Rather, they are intended primarily to encourage inventors to bring their ideas to the attention of management. The subject of cash awards to employee-inventors is under almost continuous study in an effort to find the best possible answers to the question of whether significant monetary incentives for patentable inventions are important in encouraging creativity.

b) Fixed Awards

Companies that pay cash awards for employee inventions often grant fixed amounts ranging from $50 to $3,500. Occasionally the payment is in the form of savings bonds or shares of stock.

Payments are usually made in installments – part on filing of the application and the balance on issue of the patent. A number of companies have adopted award schedules such as:

- $500 on filing, $500 on patent issue;
- $500 on filing, $1,000 on issue;
- $1,000 on filing,

Companies that pay fixed awards for employee patents generally provide for awards to each of two or more co-inventors. A few companies divide fixed awards equally among all the co-inventors.

c) Variable Awards

Some companies that reward inventors make awards according to an estimate of the invention's worth.

d) Payments for Patents or Licenses Sold

Some companies that grant no immediate cash reward for filing or issuance of a patent pay the inventor if the patent is sold or licensed to another company. A company, for example, may have mechanisms for compensating employees whose inventions are originally assigned to the company and subsequently sold or licensed to other companies.

A company's award program may also provide that when an employee's patent is combined with other patents to form a product or process, any income from licensing or sale is placed in a fund according to the above scale and the company determines each inventor's share.

e) Compensation of Non-Technical Employees

Some companies make a distinction between inventions conceived by employees in research and engineering and inventions conceived by other employees. For example, a company that has no system of cash awards designed solely for inventors may pay hourly shop employees an amount in their year-end bonuses in exchange for the rights to their invention. A company that has no regular cash awards for inventions may make special provision for the processing of inventions assigned by non-research and engineering employees. A company may receive from the employee a "shop right license" with the first option to buy the invention (if it is to be kept exclusively) at as favorable a price as he would sell to a third party. Moreover, when released from the option, he can license anyone else whom he chooses on the patent obtained for him. Thus, if his invention is good, he will be rewarded through licenses to others.

f) Alternatives to Cash Awards

Companies that grant no cash awards to employee-inventors have in some instances found other ways to recognize the employee's contribution. For example, a company may present an inventor, on assignment of patent, with a silver dollar embedded in a plastic presentation piece. A company may employ

a series of publicity releases and congratulatory letters from top management designed to accord public recognition to employee-inventors. In addition, the inventor gets a shiny silver dollar as a "conversation piece."

A company can take special pains to recognize employees to whom patents are issued. For example, at a management club meeting, color slides can be shown of all persons who received patents during the previous fiscal year together with the products to which the patents pertain. Also, the company can recognize them in the company newspaper or on an annually updated commemorative plaque.

2. Keep Senior Executives Informed

Most companies provide senior management with IP reports, usually on a regular (monthly or quarterly) basis, on the status of pending IP matters. In some instances, periodic reports are supplemented by an annual summary of IP activities.

Other companies have no planned schedule of IP reports to management because there is relatively little patent activity or because patent specialists are a part of the management group and report items of significance as they occur. For example, IP counsel can inform senior management of general patent progress through periodic luncheon meetings.

Anticipation of senior management's interest governs the topics included in most patent reports. Senior executives often note that their chief concern is to be advised of any patent problem that involves company policy, that requires a decision on their part, or that bears on the strength of the company's patent position with regard to both current and projected processes and products.

Specific kinds of information about patents should be reported to the senior management include:

- The extent to which products of the company are protected by United States or foreign patents;
- The extent to which company products may be dominated by patents of another company;
- The degree of patent protection obtained or obtainable with respect to projected products or operations;
- Facts regarding threatened infringement litigation against the company.
- Cases of infringements of company patents;
- The status of any actual patent litigation involving the company.

Patent reports to senior management also may include:

- Significant data on patents issued to other companies in fields related to the company's line of business;

- Important changes in patent or trademark laws;
- Lists of licenses that are extended to other companies;
- The impact of the company's participation in industry organizations on patent rights of the company and other companies;
- Progress of important patent applications;
- Summaries of ideas presented to the company for patent consideration and analyses of their value;
- Analyses of the strength of competitive patents;
- A listing of patent expiration dates.

3. Keep Technical Personnel Informed

IP in-house counsel commonly supplies technical personnel with analyses of patents issued to other companies in similar lines of business. In addition, some companies keep their technical staff advised on other companies' new methods or products that might lead to patentable ideas. It goes without saying that companies should provide their technical staffs with overall guidance on the importance of patents, requirements for patentability, and the role played by the patent department.

a) Official Gazette; The USPTO Web Site

The *Official Gazette*, a weekly publication of the USPTO now available only on-line at *www.uspto.gov*, is the principal source of information regarding new U.S. patents. Abstract services for patents issued in foreign countries provide similar information, for companies that are interested. Some patent departments scan each issue, marking the inventions that will be of special interest to their own technical personnel and then distribute them to research and production people concerned with patents. Some patent departments automatically secure copies of all patents that appear to be of interest to the company, but others order copies on request only, since patents are available on-line from the USPTO's public Web site, *www.uspto.gov*.

Rather than distributing the *Official Gazette*, some corporate patent departments prepare digests of significant patents for distribution to technical personnel. Newsletters covering topics of interest to technical personnel are often a good way to "get the word out" about the role of IP in-house counsel in the company. To provide this sort of guidance, IP in-house counsel sometimes attend relevant industrial shows and trade fairs in order to observe competitors' products and designs. The IP department also subscribes to a number of information services that disseminate information on new products, materials, and techniques to industry.

Companies should hold periodic meetings to brief technical personnel on significant patent developments.

b) Patent Information Booklets

Some companies prepare special booklets to alert technical employees to the significance of patents and to inform them of the records and processes involved in securing patent protection. These booklets are written in general terms and are not intended to be a substitute for procedural guides and instructions.

For example, these booklets serve the purpose of informing technical personnel what kinds of invention may be patentable, what information is needed to obtain a patent, the steps involved in securing a patent, and the role played by both inventor and patent counsel.

The booklet is not intended to qualify readers as patent attorneys or agents, but rather to explain how research and other technical personnel and the patent department can cooperate to protect company inventions. The book achieves another outcome, which will have been satisfied if readers supply the IP attorney with complete invention disclosures.

c) Liaison with Inventors

Members of the IP staff keep in touch with invention progress by holding frequent visits with members of the research staff who are working on potentially patentable items. In addition, members of the patent staff keep up on invention progress by sitting in on research meetings or by attending committee meetings of technical and production personnel. When invention activity is sizable, each member of the patent staff is generally assigned to serve as a liaison with a particular research group. Personal contacts are considered to be the best means of maintaining an ongoing dialogue between geographically separate patent and research staffs. Patent counsel are therefore urged to make frequent visits to the production and research centers they serve. Letters, e-mails, and phone calls also help to maintain contact between visits. Some companies also encourage their inventors to visit the patent department or to phone whenever they have a question or need assistance or advice.

The most common liaison problem encountered by patent counsel is getting inventors to keep an adequate log of an invention's development and accumulate the supporting data necessary for filing a patent application. It is important to develop an appreciation of the nature of potentially patentable inventions and of the need to maintain reasonably complete, signed, dated, and witnessed records relative to inventions. As might be expected, this problem varies considerably with the individual inventor and also with the extent to which the particular attorney has been successful in educating his inventors about the necessity of making adequate disclosures.

There are other problems that some companies encounter in maintaining a satisfactory liaison between inventors and patent counsel. These include:

- Maintaining contact with inventors outside the major research units;
- Finding time to make frequent trips to geographically scattered production and research centers;
- Finding suitable people to do liaison work and maintaining their interest;
- Maintaining a follow-up during the late stages of development program;
- Getting employees whose inventions are incidental to their regular work to acquaint the patent department with potentially patentable inventions;
- Preventing premature public disclosures until a patent application can be filed.

Avoiding the premature public disclosure of a potential patent is particularly difficult for some companies when the item represents a potential commercial product. Engineers and sales people generally like to submit new products to selected customers for evaluation with the expectation of making further improvements before freezing the design. Once this is accomplished, the marketing division is naturally anxious to get the product on the market. While companies are allowed one year following the first publication or public use in which to file an application in the United States, there is no such grace period in many other countries. The first patent application must be filed prior to any disclosure anywhere if a valid patent is to be obtained.

VII. The Benefits of an IP Protection Program

One reason for an IP Protection Program is simply, to echo a George Mallory apocrypha on climbing Mt. Everest, "because it is there." Every ongoing business entity amasses a great deal of intellectual assets. These assets can vary from critically important, such as a proprietary manufacturing process or business method that is the *raison d'etre* of an entity, to the mundane, such as a shrink wrap license to use purchased software. Some of these assets are property, and can be protected with patents, trademarks, and copyrights. All of this intellectual capital should be actively managed, however, just as an entity manages its real property, plant, and equipment, and its human resources.

Today, an IP Protection Program is critically important because IP law seems particularly to be in a state of flux. Just in the last year or so, there have been major changes in the law of patent claim interpretation, patent validity (obviousness), willful patent infringement, and trademark dilution, as specifically recounted elsewhere in this primer. Congress is currently deliberating on bills affecting venue, inventorship, prior user rights, expanded *inter partes* review,

and apportionment of damages. There is also an ongoing impetus to comport with international intellectual property law. Intellectual property is at greater risk from counterfeiting and bootlegging. All of this change is not surprising, given the underlying changes in the world economy wrought by the digital revolution, free trade policy and agreements, the export of manufacturing, and the movement to service economies in the developed nations. The law, especially intellectual property law, must change to reflect this, and business and similar entities must change their policies and practices to accommodate it. An ongoing IP Protection Program will help entities predict and prepare for the changes that affect their intellectual property.

As explained in the prior chapters, the basic right of a patent is the right to exclude others from making, using, selling, offering to sell, or importing products or processes embodying a company's invention. The basic right of a trademark is to prevent others from using a confusingly similar mark. The basic right of a copyright is to prevent unauthorized copying by others. These exclusionary rights, *i.e.*, the ability to protect a market niche against competitors, obtained by way of an effective IP protection program, can be of immense value to a company.

Intellectual Property can serve as an important cross-licensing "trading card" in litigation. A company's best response to a competitor's patent infringement action is filing a solid counterclaim against that competitor for patent infringement. Of course, a company's ability to respond in this manner depends to a large degree on the depth of its patent portfolio. Indeed, for this reason, competitors will often deter from filing a patent infringement action if you have a solid patent portfolio (most companies will evaluate the likelihood of patent infringement counterclaims before filing suit or even charging a competitor with infringement).

Intellectual Property can also function as an important revenue source. Traditionally, licensing fees were charged, but were considered to be of secondary importance. Texas Instruments began to change this approach some years ago by looking at its patent portfolio as a vehicle for generating significant revenue that would flow to the bottom line of the company. Building on the Texas Instruments model, other companies, such as IBM, Rockwell, Dow Chemical, and Procter & Gamble have been actively licensing their patents for the purpose of generating additional revenue. Today, revenues from their licensing programs, litigation, and settlements relating to U.S. patents are well over $100 billion. In one year alone, IBM received approximately $2 billion from patent licensing. To at least a handful of U.S. companies each year, patent licensing revenue makes the difference between ending the fiscal year "in the black" rather than "in the red." Universities and other educational or research entities now are aggressively licensing their intellectual property as well, with recent aggregate revenues measured in the billions per year.

The efforts directed by many companies to patent licensing have expanded into areas beyond patents, and many companies have recognized that licensing of trademarks can help in increasing the recognition of the company's brand names as well as generating substantial revenues. Chrysler is believed to have received more than $300 million from licensing of the JEEP trademark.

Intellectual Property can constitute an important "asset" for a smaller company seeking potential investors or seeking to position itself for a successful IPO. A company with an exciting new technology that is protected by a block of patents is obviously much more desirable to an outsider than a company that has no discrete protection. Many venture capital firms look for patent filings and expect that a portion of their investment will be spent on IP development.

A strong IP protection program includes actively monitoring the IP rights of others, and taking steps to avoid trespassing on those rights. Obviously, avoiding even one patent infringement lawsuit can result in a major cost saving. Moreover, as a consequence of staying "informed," *i.e.*, periodically reviewing the newly patented or patent pending technology of competitors, engineers and scientists within the company may be spurred to innovate. It is not at all unusual for a company's "design around" product to function better (or be less expensive) than the patented design – indeed, this is one of the purposes of a patent system. Finally, obtaining the advice of patent counsel that a company's product does not infringe a competitor's patent can be crucial in establishing good faith to avoid a determination of "willful" infringement, a determination that, under the patent laws, can result in a trebling of damages and the awarding of attorney fees.

A well-structured and effective IP protection program can also greatly benefit company morale. Engineers and scientists appreciate not only the additional compensation that they receive from an IP reward program, but also take pride in receiving patents. Employees are naturally more inclined to develop and document inventions in a company that demonstrably recognizes the importance of protecting its employees' innovations. The result can have a snowball effect – as employees see their innovations contributing to the success of their company (and receive recognition in this regard from the company), they are spurred to develop more patentable inventions. A successful IP protection program has been created, with benefits that are almost certain to follow.

VIII. Cost Analysis of an IP Protection Program

Developing, implementing, and maintaining an intellectual property protection program is a significant undertaking, requiring a commitment of temporal and monetary corporate resources. How can corporate counsel identify and project the cost of developing a program to protect IP, and what can be done to minimize those costs?

The costs of an IP Protection Program include internal costs, legal costs, and enforcement costs.

A. Internal Costs

The internal costs of an IP protection program include management time, technical/engineer time, secretarial time, and the costs of a reward program. At least one corporate officer, such as a corporate VP, must actively participate in the IP program. From the start, the corporate officer should work with legal counsel (whether in-house or outside counsel) in developing the IP program. Once the IP program is in place, the corporate officer can reasonably expect to spend about five to ten hours per month on IP, primarily making decisions on IP protection and strategy based upon recommendations supplied by legal counsel, attending quarterly IP review sessions, presenting awards or other incentives to employees, and similar duties.

A manager in each technical division or section of the company must also be actively involved in the IP program. This involvement consists of working directly with engineers and scientists to identify inventions to be protected and infringement issues to be evaluated, and communicating with IP counsel and corporate management. Each section IP manager can be expected to devote about two to four hours of time each week to this task.

Engineers and scientists must be trained in basic intellectual property legal issues, and, once trained, should ordinarily expect to spend an average of two to four hours per week recording inventions in laboratory notebooks, preparing invention disclosures, and assisting IP counsel in the preparation and prosecution of patent applications, and attending to other IP issues.

Of course, if a company becomes involved in IP litigation, the time demands on corporate personnel at all levels escalate significantly, particularly during the discovery and trial phases. Indeed, diversion of corporate resources is usually a major consideration in deciding whether to litigate a matter. However, if you are sued, your control over costs and time will be substantially less than it would be if you were a plaintiff in a case.

Internal legal costs also constitute a large cost component. Larger corporations typically have one or more IP attorneys on staff, along with secretaries and paralegals. In smaller companies without an IP legal staff, the general counsel of the company may spend at least a portion of his or her workweek on IP matters.

Incentive awards and bonuses form another cost component of maintaining an IP Program. The costs of an IP reward program, comprised primarily of out-of-pocket cash awards, are more predictable and controllable than the time-related costs discussed above.

B. External Costs

The legal fees charged by outside IP counsel constitute the largest external cost of an IP protection program. Large companies often look to a number of outside firms for assistance with their IP legal work, often hiring separate firms to handle IP prosecution and IP litigation. Rather than shopping for the least expensive firm, most companies set budgets to control external IP legal costs. For example, companies often set limits on fees that they will pay for the preparation of a patent application or the preparation and filing of an amendment in connection with a pending patent application. Retainer agreements, under which outside IP counsel agrees to charge a set amount per month for a defined list of legal services (usually excluding litigation), provide the greatest degree of certainty and predictability.

Government fees and disbursements by outside legal counsel comprise the second largest external cost of an IP Protection Program. To control expenses, consider limiting IP filings in foreign countries, which can be tremendously expensive (due to translation costs and the required assistance of foreign legal firms) and may add only marginal value to an IP portfolio for many companies.

The USPTO charges a maintenance fee at three spaced times during the life of a patent. Other countries charge a yearly maintenance fee or annuity, which sometimes commences while the application is pending and before the patent issues. If any such fee is not paid, the patent lapses. The cost of these annuities increases as the patent gets older. A determination should be made every year about whether the cost of maintaining the patent in existence for another year is warranted. Also, attention should be given to the number of independent claims and the total number of claims in a patent about to be issued because some countries base the annuity fee due on the number of claims in the issued patent.

C. IP Enforcement Costs

An IP portfolio developed by an effective IP protection program is useful only if the IP is respected by competitors. One sure way to gain respect is to vigor-

ously enforce IP rights. Most companies outwardly state that they do so. Obviously, however, true respect is earned by those who not only police their IP and threaten competitors, but those who litigate and win (or those who are sued and win). The key word is "win."

Suggestion: Pick your battles. IP litigation is extremely expensive – minimum mid-six figures in a simple case decided upon summary judgment, and multiple seven figures if a case goes to trial. Keep in mind that IP litigation not only has huge external costs, but huge internal costs in terms of diversion of resources. The internal cost of IP litigation was mentioned above, but bears repeating. Expect the litigation to consume multiple days, not hours, of corporate time involved in collecting information and documents responsive to discovery requests, preparing for and attending depositions, participating in strategic and settlement discussions, etc.

But make no mistake about it, IP litigation is closely followed by those in the industry and bestows huge rewards upon the victor in terms of respect from competitors, particularly the small player that stands up to the big player and wins.

D. Tracking and Controlling IP Costs

Tracking and controlling external IP costs is fairly straightforward. Prepare a budget based upon the criteria and considerations noted above, and enforce it.

Tracking internal IP costs, comprised primarily of employee time, is more difficult. Ask for feedback from division managers: How much time is IP actually "costing" the division? What tasks are taking the most time?

Consider using one or more of the many commercially available software programs to track corporate IP and to allow employees to research patents and get patent copies quickly and easily. The web site of the USPTO, *http://www.uspto.gov*, includes access to a fully searchable database of all published pending and issued U.S. patents and trademarks. Images of published pending and issued patents, worldwide, can be downloaded quickly and easily using a shareware program called GetIPDL, accessible at *http://www.GetIPDL.net/en*.

In summary, developing and maintaining an effective IP protection program is not inexpensive. However, many costs attributable to IP are identifiable and controllable using the guidelines set forth above. The key is to create a program that is streamlined and easy to use. The benefits of such a program are discussed in Chapter VI.

IX. Timeline for Creating a Corporate IP Protection Program

A. Formulating a Realistic Schedule for Organizing and Implementing a Corporate IP Protection Program

One of the challenges facing a company that is seeking to establish an internal structure for addressing its IP needs and concerns for the first time is to decide on the appropriate sequence or schedule of requirements that need to be satisfied. In this chapter, we have formulated such a schedule into a series of three overall phases: (i) identifying the types of IP services required by the corporation in light of its business activities and foreseeable needs, (ii) recruiting an appropriate in-house staff to carry out these IP functions, and (iii) assessing the need for, and obtaining, the appropriate support services and docketing system.

1. Identifying the IP Services Required

For the average manufacturing enterprise that does research and development on new products and processes, the following in-house IP services will need to be provided:

- Organize a recordkeeping procedure to document inventions that are made by the company's employees;
- Determine a procedure for evaluating such inventions to determine their level of economic importance and the need to file patent applications;
- Organize patent solicitation workflow procedures, including preparation, filing, and prosecution of patent and trademark applications in the United States and in foreign countries;
- Establish policies for dealing with unsolicited invention disclosures from outside the company;
- Establish procedures and schedules for monitoring and paying patent maintenance fees and taxes in the various patent offices;
- Create a portfolio of the company's current trademarks and service marks; institute a program for registering such marks in the United States and abroad and for keeping them in force;
- Establish internal IP committees to meet periodically to determine necessary actions in patent and trademark matters.

a) Recruitment and Staffing Policies

The company's personnel department should establish a procedure for recruiting members of the IP department. Initially, the company should recruit an experienced IP practitioner, preferably one who has both patent and trademark experience, to serve as chief IP counsel.

One of the chief IP counsel's initial tasks should be to recruit an appropriate number of individuals to staff the company's IP department. The company should recruit primarily law school graduates with one or two years of either law firm or corporate IP training. Higher-level positions within the IP department (but below that of chief patent counsel) should be filled by recruiting experienced lateral hires.

b) Support Services/Docketing

An important factor in the efficient operation of an IP department is the quality of its docketing system and relevant support personnel. An appropriate docketing system can be selected from currently available software and, if necessary, modified to accommodate the company's needs. However, in doing so, the chief patent counsel should carefully evaluate the suitability of such a system by conferring with a knowledgeable software consultant and with his counterparts in other companies who have had experience with the same software. Once a docketing system has been selected, the company's personnel department should assist the chief patent counsel in recruiting the appropriate number of qualified personnel who would operate the system to ensure its proper function.

B. Monthly Checklists of Actions to Be Taken

When an IP program has been formulated, it is important to implement it as expeditiously as possible within the time frame set by the company's management.

1. Identifying the "Milestones"; Setting Action Priorities

It is important that the various steps needed to create a properly functioning IP department be taken on in a proper sequence. One way of doing this is to establish a set of milestones for the items to be set in motion and the amount of time needed to do so. It is suggested that the sequence of IP services listed in Part A.1, above, be used as the template for identifying these milestones.

2. Allocating Time Frames

One of the more challenging aspects of establishing an IP protection program is deciding the amount of time needed to complete each step successfully before proceeding to the next phase. This should be the primary responsibility of the chief patent counsel who, by virtue of his experience in the field, is in the best position to decide how much time each step will require, which may be dependent on the financial and organizational resources available to him through the company.

X. Corporate Utilization of Internal vs. External Legal Resources

A. Pros and Cons of Doing IP Work In-House vs. Working with Outside Law Firms

1. Reasons for Retaining Outside Counsel

Virtually all companies have had occasion to engage outside counsel to handle their IP work in one form or another. Retaining outside counsel for litigation is necessary in most cases, usually for reasons associated with the attorney-client privilege, attorney work product, admission-to-practice requirements of most courts, and the frequent need for in-house counsel to testify on behalf of the company. The use of outside counsel to handle all of a company's IP needs can make economic sense for companies whose IP workload is small or when the amount of work varies over time. Also, the actual cost of IP work can be better monitored and controlled when only outside counsel are used. Such costs can often be brought to management's attention in a more focused way than the costs associated with an in-house IP department. Outside counsel should render periodic, itemized invoices on a case-by-case basis, clearly showing the total cost of outside legal services.

2. Reasons for Not Utilizing Outside Counsel

One of the perceived disadvantages of outsourcing a company's regular IP work is outside counsel's lack of an in-depth, ongoing familiarity with the company's operations. This can impede the efficient handling of the IP function, unless a particular law firm is used regularly, so that its key members can learn enough about, and keep abreast of, that client's business to be able to work optimally with in-house counsel on an ongoing basis.

3. Criteria for Deciding When to Outsource IP Legal Services vs. Utilizing Internal IP Resources

The work that outside IP counsel do for their corporate clients can vary from responding to occasional requests for advice to handling all of a company's IP-related legal affairs. Outside counsel's role depends in large part on the nature and structure of the company's in-house IP and general law staff. Regardless of how actively outside counsel participates in the company's IP program, there has to be some liaison representative within the company for coordination and control.

a) Intellectual Property and General Counsel on Staff

Often, there is no clear-cut division of responsibility between outside IP counsel, IP in-house counsel, and general counsel in companies using the services of all three. But, in general terms, the services provided by outside IP counsel should be characterized by independence and objectivity, coupled with a background of experience from counseling other clients. IP in-house counsel, on the other hand, should be able to furnish in-depth knowledge of the company's legal problems, its research and development work, new-product programs, and business and interpersonal relationships, both internally and with other companies in the same industry.

When outside IP counsel are needed by companies to supplement the work of their in-house IP and general counsel, it is usually either for advice or assistance, and/or preparatory to, litigation and/or negotiations. Such a need usually arises because of the difficulty or importance of problems that are not appropriate for handling in-house, or because of a company policy to have certain work, such as litigation, handled by outside lawyers.

b) When There Is No Staff General Counsel

Companies that have a staff IP counsel but no general legal counsel will usually retain outside IP lawyers primarily for consultation in connection with litigation. Intricate or specialized problems are also usually referred to outside IP counsel.

Liaison with outside IP counsel is almost always handled by the IP in-house counsel. Some companies leave their IP in-house counsel free to use outside IP counsel as may be deemed appropriate, usually in consultation with the company's management to whom IP in-house counsel reports.

c) When There Is No Staff IP In-House Counsel

Companies that employ staff general counsel but have no IP in-house counsel invariably retain the services of outside IP counsel. In some companies, part of the IP work is done either by their own law department or by members of the company's research staff who have acquired some knowledge of patent law. Typically, however, these companies rely on outside IP lawyers to handle IP matters. In such circumstances, responsibility for dealing with outside IP counsel day-to-day may rest with the head of the research or engineering activity.

Some companies have practically all their IP work done by retained outside counsel. These counsel report to the research or engineering department, and consult with general legal counsel, who may act as outside IP counsel's main contact when matters of business and legal policy or contracts are involved.

Small companies that have no IP in-house counsel usually maintain IP sections in their research departments. These sections are staffed by non-lawyers who have acquired some knowledge of patent law and may have become patent

agents, registered to practice before the U.S. Patent and Trademark Office in patent matters. They serve as liaison with outside IP counsel and administer the company's IP program. They assist counsel in many ways, including the preparation of patent applications and the coordination of patent searches. They also facilitate the exchange of ideas between inventor and patent counsel and provide information to outside counsel when required.

d) When All Legal Work Is Done by Outside Counsel

Some companies have neither IP in-house counsel nor general staff counsel, and must rely entirely on outside IP counsel to handle the companies' legal matters.

In these companies, for example, patent matters are likely to be taken up directly by the inventor with outside patent counsel, with little if any third-party supervision. To do this effectively requires a close working relationship between corporate personnel and outside IP counsel. To further such a relationship in IP matters, each division or research center should have an official contact within the outside law firm's legal staff who is thoroughly familiar with the IP problems of that division and can expedite the handling of routine patent matters with minimal consultation.

B. Criteria for Selecting Outside IP Counsel

More and more often these days, companies select law firms to handle specific assignments by holding what have come to be called "beauty contests" among several law firms that are competing for the company's business. The term "beauty contest" seems inappropriate because often times the most "beautiful" firm is not always the best choice, but simply the best looking. The following pointers for corporate management and in-house counsel should help make the process more effective.

1. Domestic Law Firms

a) Prescreen the Candidates

Time is money, and executives — whether management or in-house counsel — can ill-afford to waste either. Therefore, only those lawyers or firms who have demonstrable experience in handling the type of work that the company is seeking to "outsource" should be considered. Such lawyers or firms should have prior experience with, or at least be generally acquainted with the knowledge of, the subject matter of the proposed engagement, as well as the court and opposing counsel. That kind of experience, though costly, often saves money in the long run.

In addition to reviewing a law firm's marketing or promotional materials, the general counsel should read the resumes of the lawyers in the law firm who will

likely be doing the work. When evaluating a law firm for its relevant litigation expertise, the reported court decisions in the cases the firm has handled should be checked. In addition, the law firm should furnish a non-confidential list of its current clients to make certain that the company's interests would not be at odds with the firm's loyalty to other clients, both ethically and from the standpoint of "business conflicts." A company may wish to consider whether or not it would be prudent to hire a law firm that represents a competitor. Toward that end, it would behoove the company to identify its "competitors" to the law firm so as to avoid wasting time or causing later surprises.

The law firm candidate should also provide a non-confidential list of its former clients — and the company's general counsel should take the time to check them out. One can learn a great deal about what it would be like to work with a particular outside law firm from other in-house counsel who have already done so. When checking out a law firm's references, in-house counsel should also ask those former clients if they felt that the results achieved by the law firm justified the expense. After all, if outside counsel cannot be trusted to bill its other clients fairly, then why trust him or her to handle the company's most important legal matters?

b) Ask the Right Questions

The more incisive the questions, the more insightful the answers are likely to be. The general counsel should not bother asking for information that can be obtained from the firm's resume or web site.

The following is a checklist of some questions designed to elicit useful answers:

- Tell us what you know about our business. What do you understand about the legal matter in question that makes it important to the company?
- What problems do you see in this engagement and why?
- How will you be staffing the case? Whom do you have in mind as your local counsel (in cases where the law firm being considered does not have an office in the particular venue)? Would I have your personal commitment to become and remain involved in the case? How shall we communicate and how often?
- How will you manage discovery? Can you give us a budget?
- What would be your strategy for handling this case? How would you go about resolving it short of trial? What solutions to our problem can you recommend?
- Tell us about the last significant case you resolved short of trial and how you did it.
- What do you believe makes you the best choice to handle our matter and why?

c) Be Candid

Just as a doctor needs his patient to tell him where the pain is, a lawyer needs to know from his client everything that may be relevant to a case before he or she

can give an honest appraisal of what it will cost to prevail, or whether the client stands a reasonable chance of prevailing at all. If there are time pressures, or if there are cost considerations in a poorly capitalized company, admit it. For example, if the general counsel is aware of a former employee who will likely be a hostile witness, then he ought to disclose it.

d) Look for Loyalty

Avoid law firms that have a history of trying to undermine the company's in-house counsel (or whoever hired the firm in the first place). The firm should be loyal to in-house counsel, not to other management people within the company. Otherwise, it may cause tension that will impede the healthy development of the attorney-client relationship. In-house lawyers naturally want to work with outside counsel whose own successes will make them look good, and outside counsel should understand and appreciate that fact. Do not hire outside counsel who will call the higher-ups directly whenever there is good news to report and let in-house counsel deliver only the bad news. Outside counsel's perception of his or her own worth (often tantamount to an inflated ego) must not be allowed to interfere with in-house counsel's own career within the company. The general counsel should look for outside counsel who understand that they are in a service industry, and that while the company is the client, the general counsel is in effect the customer. It is vital that the lawyer who gets hired shares or at least understands the general counsel's notions of how the case should be handled.

e) Go with Your Instincts

How a company decides among firms after seeing their presentations is often a matter of instinct. The relationship between in-house and outside counsel is like a marriage, so the general counsel should listen to his or her instincts when judging a "beauty contest."

2. Foreign Law Firms

The process of selecting foreign law firms to handle a company's IP matters — whether it be prosecution or litigation — is usually somewhat different than in the case of retaining domestic counsel. Customarily, a United States company relies on the recommendations of foreign affiliates or customers, and in some cases, on those of its domestic counsel who have had previous dealings with foreign firms and are in a position to comment on their qualifications.

In the case of patent or trademark prosecution, most foreign law firms will provide schedules of their fees for routine services. These are usually more or less the same from firm to firm since such schedules are likely a common practice in those countries. The main value of fee schedules is that they can serve as a means of checking to see if a firm is too inexpensive (and hence less likely to be of high quality) or too expensive (and hence likely to be less cost effective, albeit of high quality).

3. Settlement Counsel

One of the main concerns throughout the course of a litigation, even before litigation begins, is the prospect of an out-of-court settlement of the dispute, thus avoiding the need and expense of a trial. In-house counsel is often responsible for settling IP disputes rather than outside litigation counsel. This division of labor is necessary because if the same law firm that will serve as trial counsel also conducts the settlement negotiations – even if these functions are partitioned between different lawyers in the firm – a conflict of objectives can arise, which can undermine both the settlement and litigation efforts.

However, even if in-house counsel is primarily involved in settlement talks, internal economic and political issues may adversely influence the otherwise sound judgment of in-house IP counsel, general counsel, and business executives. In view of this possibility, firms should consider retaining separate outside counsel to deal with the adversary in an effort to reach a reasonable settlement. A company's management should expect that outside counsel will approach the problem more objectively (and with less emotion) since settlement counsel's role is not likely to represent a threat to litigation counsel or to in-house counsel.

XI. Achieving Quality Assurance in Working with Outside Law Firms

One of the best ways to monitor and assure the quality and cost efficiency of the legal services of outside counsel – both domestic and foreign – is by multi-outsourcing, *i.e.*, using more than one firm in those countries where it is warranted by the workload, so that comparisons can be available on a continuing basis. An additional way to assure prompt, effective, and personal service is to visit these firms periodically, for no amount of correspondence can substitute for person-to-person meetings. While a company may have a primary litigation relationship with one firm, it often makes sense to use several other law firms in different cases to assure the best representation at reasonable cost.

A. Controlling the Costs of Utilizing Outside IP Counsel: Budgets

If a company's legal matters are important enough to hire outside counsel to handle them, then the cost of doing so should be but one factor in deciding how the case is to be handled. Indeed, many lawyers who routinely charge less per hour will probably bill significantly more hours over the life of the matter. Another way in which costs can be controlled in connection with domestic litigation is to use in-house legal staff to assist and to supplement the work done by

associates in the employ of outside counsel, as appropriate. In particular, paralegal personnel within the company's IP department should be used to maintain litigation and other case files. Paralegals and other non-lawyers can also work with the assigned member of the department and outside counsel to collect and review documents, maintain document collections, and otherwise assist in connection with discovery.

The in-house IP counsel should also consider the use of computers for document retrieval in connection with litigation. When an aggregate of over ten thousand documents is likely to be involved, computer assistance for search and retrieval is usually advisable.

1. Cost Estimates and Budgets

Asking outside counsel for an estimate on how much a case will cost in the aggregate before he or she knows much about it is usually a meaningless exercise. A lawyer – even an experienced one – cannot tell a client how much it will cost to litigate a case because it depends on a host of factors beyond one's control. When in-house counsel asks outside lawyers for a cost estimate, what one usually gets is tantamount to a salesman's bar room banter and hedging, like "actual fees and expenses may be higher or lower," and "this is only an estimate."

Budgets, however, are a different matter. When in-house counsel ask for a budget, they focus appropriately on specific numbers for specific tasks. Budgets should be calculated on a preliminary basis at the outset of a case, and reviewed and updated as the matter progresses.

2. Hourly Rate Billing

In the current economic climate, companies regularly complain that the cost of outside legal services is high because law firms are wedded to the billable hour. Nevertheless, hourly billing continues to be the standard way many, if not most, law firms charge for their services.

Consistent with the American Bar Association's Model Rules of Professional Conduct, outside counsel's fees for professional services are usually billed on the basis of the regular hourly rates of the people who are doing the work (the so-called "time-keepers"), plus disbursements and fixed office service fees. In most firms, all attorneys, law clerks, paralegal assistants, librarians, and certain clerical personnel keep detailed time records of the work they do on every client matter. (Most law firms do not charge for non-overtime secretarial work). Each person is assigned an hourly-billing rate based on his or her expertise and experience. These are reviewed periodically by the firm and adjustments are made when appropriate.
While the concept of hourly billing rates seems logical and appropriate as a way of valuing legal services, in reality, corporate clients often suspect that

this billing method can lead to excessive charges because the firm uses billable hours as a basis for evaluating attorney performance. On the other hand, law firms that view themselves primarily as members of a profession whose primary obligation is to serve the legitimate interests of their clients, and who conduct themselves accordingly, are usually not subject to this criticism. This would be in keeping with Abraham Lincoln's observation in essence that "a lawyer's time and advice are his stock in trade."

3. Transactional Fee Billing

In general, billing on a transaction basis is a variant of the hourly rate billing method. The main difference is that while most firms tender their invoices on a monthly or other periodic basis, some firms elect, in certain types of work, to issue an invoice upon completion of each transaction so that the client is continually apprised of the cost in a particular case. Transactional billing has been quite common for many years among foreign law firms engaged in IP solicitation work, and it is becoming more so among U.S. law firms as their accounting software becomes more adept at generating transactional invoices.

4. Fixed-Fee Billing

Fixed fee rates are charges that are usually listed in schedules prepared by law firms engaged in IP work. The costs of handling routine matters by non-lawyers are billed on a fixed basis that is determined roughly by the cost of labor and overhead in rendering these kinds of services within the firm.

5. Retainers

When law firms are engaged for the first time by a client, it is customary for the firm to request retainers as advance payments against future charges. Such retainers are often waived in the case of major corporate clients or those who come to the firm on a referral basis. They are used more often in cases where the client's financial track record is not yet established. Also, it is not uncommon for a law firm to request an advance fee against significant disbursements, particularly in litigation matters where significant expenses – expert witness fees, per diem expenses, etc., – are likely to be incurred by the firm, which may not be readily able to pay them prior to billing the client.

6. Value Billing

The following section discusses alternatives to hourly, transactional, and fixed fee billing practices. These alternatives are often referred to as "value billing" (the theory being that the law firm is compensated on the basis of what the value of a successful outcome of a case would be to the client). In reality, they present the possibility of a law firm's being paid an amount significantly more or less than the value represented by traditional billing practices.

7. Contingent-Fee Arrangements

a) IP Litigation

In IP litigation where a plaintiff has a high likelihood of prevailing against a defendant whose financial liability could be significant, a law firm may agree to represent the plaintiff in exchange for compensation in the form of a negotiated percentage of the recovery (usually an amount approximating one-third), with disbursements to be paid by the defendant on an ongoing basis.

In cases where a law firm represents a defendant, a contingent fee arrangement can be one in which the law firm, if successful on behalf of such a client, receives a negotiated percentage of the defendant's revenue resulting from defeating the plaintiff's attempt to obtain an injunction.

b) IP Prosecution

In cases where an inventor or a company of limited resources has an invention that appears to have prospects for major financial return on the investment needed to develop it (including the cost of patenting), IP law firms will sometimes accept an arrangement in which the inventor or the assignee agrees to pay for legal services in the form of a percentage of the profits that may be realized when the invention is commercialized. This is commonly regarded as a high-risk investment on the part of the law firm and should be entered into with circumspection. Such arrangements can lead to huge windfall profits far in excess of the actual value of services rendered, if the invention achieves significant economic importance in the marketplace.

c) Offering Equity Ownership in the Company to Outside Law Firms in Exchange for Services Rendered

As an alternative to the traditional contingent fee, a law firm may invest its time and effort in obtaining IP protection for a client in exchange for an ownership interest in the client's business. Aside from possible ethical questions and concerns, this arrangement is probably the most risky of all for law firms and consequently not likely to be viewed favorably by them when proposed by a client. But again, when the company succeeds in the marketplace with its invention and its stock price rises significantly, the result can be a significant long-term financial gain for the law firm.

XII. International Intellectual Property Rights Considerations

A. Introduction

Intellectual property rights granted under U.S. law extend within the United States but rarely to foreign countries. In some cases, foreign rights may represent a majority of the value inherent in an invention, work, or mark. Therefore, it is essential to consider whether foreign intellectual property rights should be secured in addition to domestic rights when developing and managing an intellectual property portfolio. Available rights may include utility patent, design patent, mask-works, trademark, copyright, and trade secret protections.

Depending on the particular country and type of intellectual property involved, rights may be acquired automatically or require formal application. United States patent rights are almost never extra-territorial,[110] and foreign patent rights are not automatically available. Therefore, establishing patent rights outside of the United States invariably requires filing foreign patent applications.

In addition to utility patents, some countries offer utility model patents. As with a utility patent, you must file a formal application to secure utility model rights. Typically, however, utility model patents issue without examination, or with less rigorous examination than utility patents. Corresponding to this less vigorous examination, utility model patents generally enjoy a lower presumption of validity (if any), and have a shorter term than a utility patent.

In common law countries such as the United Kingdom, Australia, and Canada, trademark rights may be acquired by the actual use of a mark, as they are in the United States. In contrast, most civil law countries require formal registration of a mark in order to establish any rights in a trademark.

In countries that are signatories to the Berne Convention Protection of Literary and Artistic Works, copyright protection is afforded to any work that has been created in any Berne Convention country. The United States is a signatory to both the Berne Convention and the Universal Copyright Convention.[111] Both the Berne Convention and Universal Copyright Convention establish minimum thresholds for protection and define choice of law in copyrights. More generally, both conventions require national treatment for authors and artists. In other words, the creator of a work is accorded the same rights as would be available if he or she were a national of the country in which enforcement is sought. Also under both conventions, a work falls within the protections of the treaty if it originates in a signatory country of the treaty. Origin of the work is determined based on such factors as the author's citizenship or residence, and the locale of

first publication.

Trade secret protection varies from country to country. Generally speaking, no registration of a trade secret is required, but maintaining the information on a confidential basis is necessary. Trade secret protections are based on principles of contract law and, in some countries, on specialized trade secret statutes.

Any of these rights may be valuable depending on the particular circumstances of the rights-holder. However, the potential value of acquiring foreign intellectual property rights must be considered in light of the significant costs that are generally associated with foreign intellectual property activities. These costs may include foreign official fees, translation costs, and foreign and domestic professional fees. It is therefore important to develop a coherent strategy that provides a basis for assessing the likely value of various intellectual property rights, and to identify those that should be protected.

This section includes a discussion of considerations to bear in mind when developing a strategy for acquiring and maintaining foreign intellectual property rights. Because the requirements for securing foreign copyright protection are relatively straightforward, and because trade secret rights are difficult to generalize internationally, the following emphasizes foreign patent rights and foreign trademark rights.

B. Foreign Patent Rights

Under the U.S. patent law "first to invent" system, the first inventor(s) is the actual person(s) entitled to a U.S. patent. Thus, if two inventors file separate patent applications on the same invention, the inventor who can prove he conceived the invention first, diligently reduced it to practice, and did not abandon, suppress, or conceal the invention prior to filing his patent application, will be entitled to the patent, even if he filed his patent application later than the other applicant. Virtually every other country in the world, however, has adopted a "first to file" system that confers the patent on the first inventor to file a patent application. In a "first to file" system, the chronology of invention is not significant, and patent application becomes a race to the patent office. With the goal of bringing the U.S. patent system into harmony with the majority of other countries, U.S. congressional lawmakers are currently considering adopting such a system.[112]

At the risk of forfeiting U.S. patent rights, U.S. patent laws require that patent applications for inventions made within the territorial boundaries of the United States must be filed prior to filing patent applications in any other country. Subject to certain restrictions, the USPTO will issue the applicants a foreign filing license (FFL) within six months after a U.S. filing. After obtaining an FFL, an applicant may file for patent protection in other countries within one

year of the original U.S. filing date, based on the United States membership in the Paris Convention. The original U.S. filing date is referred to as the "priority date" of the application. Where the benefit of this priority date is claimed by the applicant, the foreign application is treated as if it were filed in the foreign jurisdiction on the same "priority date." The significance of a priority date becomes even more important when one considers the difference between "first to invent" and "first to file" patent systems, because in "first to file" systems, the inventor with the earliest priority date will be awarded the patent.

There are two general routes to securing foreign patent rights based on U.S. priority rights. An applicant may proceed directly to the patent office of the country in which patent rights are sought, or he may file under one of several international patent conventions. These international patent conventions include:

- Paris Convention for the Protection of Industrial Property;
- Patent Cooperation Treaty;
- European Patent Convention;
- European Community Patent ;
- Eurasian Patent Convention;
- L'Organisation Africaine de la Propriété Intellectuelle.

1. Patent Applications Under the Paris Convention

Most developed countries, with the exception of Taiwan, are signatory members of the Paris Convention Treaty. As described above, an applicant from a member country can file a utility patent application in the national patent office of any Paris Convention member country up to one year after initially filing in the patent office of another signatory state.[113] Generally speaking, the first patent application is filed in the "home" patent office of the applicant. As noted above, a U.S. applicant will normally file first in the United States and then in other foreign countries.

2. Patent Applications Under the Patent Cooperation Treaty

The most widely used of the international patent conventions is the Patent Cooperation Treaty (PCT). The vast majority of the world's countries are signatories to the PCT, including nearly all major industrialized countries. As of May 28, 2007, 137 countries will be PCT contracting states. A current list of PCT countries is provided in Chapter XV. The PCT is administered by the World Intellectual Property Organization (WIPO) based in Geneva, Switzerland.

PCT applications are filed with WIPO or through an applicant's national Receiving Office (RO), and are generally published within 18 months of filing. For example, in the U.S., the USPTO acts as an RO for U.S. residents and nationals. After filing with the RO, an authorized International Searching Authority (ISA) creates an International Search Report (ISR) containing the most relevant prior art available. Finally, an applicant may request an International Preliminary

Report on Patentability (IPRP), which details the examiner's final position as to whether each claim is "novel," involves "inventive step," and is "industrially applicable" within 28 months of the priority date. At 30 months from filing, the international stage expires, and the PCT application proceeds to the national and regional stages, where applicants may pursue patent rights in each selected individual country or region with knowledge of the prior art and an examiner's opinion on patentability.

The PCT offers a robust and reliable system for inventors. The main advantages of the PCT procedure are a unified filing procedure and the ability to delay national or regional application procedures and any respective fees or translation costs. Additionally, an evaluation of patentability made under the PCT should lead to uniform results for each country where patent rights are sought. As a result, the PCT process provides an inventor a better chance to analyze the patentability and profitability of the invention, leading to a more informed decision regarding where the patent application should be prosecuted.

3. Patent Applications Under the European Patent Convention

There are a number of regional patent arrangements that provide a basis for protecting inventions throughout all of the member countries. The most important to U.S. applicants has been the European Patent Convention (EPC). A list of the member countries ("Contracting States") of the EPC is provided in Chapter XV. Applications under the EPC, termed European Patent Applications ("EPA"), are administered by the European Patent Office (EPO), which is located in Munich, Germany.[114] Under the European Patent Convention, an applicant may secure, by a single patent grant procedure before the EPO, protection in several, or all, of the Contracting States. However, European patents granted under the EPC are enforceable only in Contracting States.[115]

EPAs are examined by the EPO and may be filed by any natural or legal person regardless of nationality, place of residence, or place of business.[116] The EPC allows the applicant to evaluate the result of the prior art search report before the applicant must decide which EPC Contracting States to designate. All Contracting States are designated by default at the date of filing, but any such designation is made valid only by payment of a corresponding designation fee within six months from receipt of the search report. A maximum of seven designation fees may be paid. The applicant may subsequently choose to validate the granted European patent in all or some of the designated states.

The basic requirements for an EPA include: a request for the grant of a European patent; a description of the invention[117]; one or more claims; any drawings referred to in the description or the claims; and an abstract. Also, you may file an application under the EPC in English. Therefore, generally speaking, a single application including specification, claims, and drawings may be prepared for

filing in the United States and in the EPO.[118] Consequently, for U.S. applicants, filing under the EPC as opposed to individual national filings yields significant savings in preparation and translation costs.

When filing a patent in the EPO, an applicant may claim priority to an earlier filed "first" application that was filed within the previous 12 months. Priority may be claimed to one or more applications, including a national application filed in the patent office of a Paris Convention member, to PCT application, or to an EPA. The EPO also accepts priority claims to a provisional US patent application.

Currently, once a European patent is granted, a patentee has a short period, usually three months, to have the patent translated into the official language of each country in which the patentee seeks patent protection.[119]

4. When to File Foreign Patent Applications

It is important to be aware of the deadlines for action associated with securing patent rights and the activities that may preclude acquisition of such rights. For example, whereas the United States has a one-year grace period in which to file a patent after publication or public use of an invention, no such grace period exists in countries with an "absolute novelty" requirement.

A foreign national patent application, filed under the Paris Convention, must be filed within one year of the filing date of the corresponding U.S. patent application to which priority is claimed. Note that this one-year deadline applies to the filing date of a U.S. provisional application if the filing date of the U.S. provisional application is to be claimed as the priority date of the foreign application.

Like a foreign national patent application under the Paris Convention, a PCT application must also be filed within one year of the filing date of the U.S. application to which priority is claimed. The deadlines are, generally speaking, non-extendable. If the filing date is missed, the opportunity to claim Paris Convention priority or PCT priority may be irretrievably lost.[120] The same deadlines apply to patents filed under both the European Patent Convention and the Eurasian Patent Convention.

5. Preserving Patent Rights

a) Patent Marking

Patent marking requirements differ from country to country. Like the United States, some countries require you to mark of an article with a patent number in order to be entitled to enforce certain statutory patent rights. You should make sure that any export product bound for a particular country is appropriately marked according to the regulations of that country.

b) Maintenance Fees

Most countries require payment of an annuity to maintain an issued patent in force. Annuity fees may represent a large portion of the cost of securing and maintaining patent protection and should be considered during the evaluation of an invention for potential patent protection.

International patent applications filed under the Patent Cooperation Treaty are not subject to the payment of maintenance fees. Such fees, however, may apply, depending on the applicant's designated or elected national and regional offices. Renewal fees apply to applications under the European Patent Convention and are due at the beginning of the third year following submission. Once an EPC patent is granted, however, no further fees are assessed by the EPO. Instead, each Contracting State pays the EPO a proportion of each renewal fee received for EPC patents in that State.

c) Enforcement

In addition to considering the costs of patent prosecution in a particular target country, you should take into account the available avenues for enforcement, and the costs associated with enforcement activities. Important considerations in this evaluation include whether or not injunctive relief is available; the magnitude of typical damage awards, if any; whether relief is available through judicial mechanisms, administrative mechanisms, or both; and the impartiality of the courts and administrative bodies in providing national treatment for foreign patent rights holders.

One issue potential foreign applicants should consider is that once granted, an EPC patent is enforceable only on a country-by-country basis. However, from a defensive standpoint, country-by-country treatment also benefits potential patentees because third parties wanting to invalidate a European patent must institute revocation proceedings in each country where the patent is in force. The European patent community is attempting to create a unified judicial system for patents under the European Patent Litigation Agreement,[121] but little progress has been made to date.

d) Compulsory Licensing

A further consideration in evaluating foreign patent opportunities is whether compulsory licensing is enforced in the target country. In some countries, patent rights holders are required to license a patent at a "reasonable" royalty if the rights holders fail to practice the patent during a particular statutory time interval. In particular, the trend towards compulsory licensing in the United States has increased after the Supreme Court's opinion in *eBay, Inc. v. MercExchange L.L.C.*[122] As courts are now generally unwilling to grant permanent injunctions to non-practicing patent holders after finding infringement, the number of compulsory licenses here in the United States will no doubt increase dramatically.

C. Foreign Trademark Rights

1. National Trademark Registrations

Applicants from the United States may file trademark applications in the national trademark office of foreign countries. Local attorneys are used for this purpose. Similar to the Paris Convention's treatment of patents, trademark applicants receive a six-month period under the Convention to claim priority to an original filing in another Convention State. Trademark registration applications made in Convention countries within six months of their priority date are therefore treated as if filed on that priority date.

2. International Registrations

The international registration system was established by a treaty known as the Madrid Agreement. Like the Patent Cooperation Treaty, it is administered by the WIPO. The Agreement was intended to provide an easier and less expensive way to file national trademark applications, but large countries with established national trademark systems, including the United States, did not sign it. To address their concerns, the Madrid Protocol was added in 1996, which provides for a 10-year term for International Registrations (IRs) and allows for applications based on pending registrations.[123] In 2003 and 2004, respectively, the European Union and United States finally joined the Protocol. The primary advantage of the Madrid Protocol is that it allows trademark owners to obtain broad international trademark protection through a single administrative process.

To apply for an IR under the Protocol, an applicant must be a national of, be domiciled in, or have a real and effective business or commercial establishment in, one of the countries or intergovernmental organizations signatory to the Protocol. The application must be based on one or more trademark applications filed in or registrations issued by the trademark office of one of the member countries. The IR application may be filed in French or English and must cover the same mark, goods, and services as in the original registration or application.

The disadvantage of the Madrid Protocol is that any refusal, withdrawal, or cancellation in any country of the originating application or registration within five years of an IR's registration date results in refusal, withdrawal, or cancellation of the IR to the same extent. Thus, an IR does not itself provide any protection. Once an applicant files an IR application, however, it can designate the member countries in which it would like to protect the mark. The WIPO then transmits copies to the trademark office in each country, where examination proceeds as it would under a national filing.[124]

3. European Community Trademark Registrations

A Community Trademark (CTM) registration provides protection of a mark throughout the entire European Union. The Community Trademark system is administered by the Office for Harmonization in the Internal Market (OHIM), located in Alicante, Spain. Community trademark registration may be obtained by international applicants.

A CTM is valid for a term of 10 years and may be renewed indefinitely. As laws applicable to CTMs are similar to those applied to national trademarks by EU member states, trademark owners will find themselves in a familiar environment, just on a larger scale. One advantage to the CTM system is that the fees associated with filing are far less than filing national applications in every member state.

If an applicant intends to market its goods or services in only a small number of member states, however, the costs of filing a CTM may exceed that of filing individual national applications. Additionally, the fees paid to OHIM are non-refundable, meaning that if an application is objected to and the applicant wishes to convert it to corresponding national applications, the applicant must pay again to file applications in each country.

D. Strategic Considerations

The development of a global economy tends to increase the value of foreign intellectual property rights for U.S. intellectual property owners. At the same time, the costs of acquiring and asserting intellectual property rights are in flux. New intellectual property treaties and widening accession to existing treaties tends to reduce, or at least defer, foreign filing expenses. At the same time, generalized inflation and geographically wider business activities increase foreign intellectual property portfolio costs. In the face of these various opposing economic forces, it is important to consider carefully the pros and cons of seeking foreign and domestic intellectual property protection.

As in domestic practice, the decision to seek foreign intellectual property rights in a particular mark, work, or invention must be addressed on a case-by-case basis. The factors favoring foreign filing have increased in number and weight in recent years. Careful consideration should be given to the pros and cons of foreign filing whenever intellectual property of significant value is at stake.

Fundamental changes in the world economy bear on the development of widespread and relatively uniform intellectual property right protections. These changes include dramatic reductions in the costs of communication and transportation. The harmonization of commercial and trading laws has allowed the development of a relatively integrated world economy capable of supporting

significant international trade and foreign direct investment. These changes have been accompanied by investment and the consequent development, in foreign countries, of manufacturing facilities.

In assessing the need for international patent protection, the first considerations include determining the status of the countries in question as current or prospective markets for the client. Even relatively inexpensive protection is likely to be unjustified in the absence of a substantial marketing opportunity. Secondary considerations include the availability of effective enforcement and the costs of enforcement of prosecution in the subject jurisdiction. Additional considerations include the effect of the rights secured vis-à-vis competitive entities. For example, if a company based in China (PRC) uses economies of scale based on its domestic market to gain competitive advantage in the U.S. market, patenting U.S. technology in China may offer competitive leverage even if the U.S. company is presently unable to exploit the Chinese market.

Factors in the national versus convention approach to foreign patenting include the likely persistence of the technology in question and the client's confidence in the prospective market. Patent protection is effective for technologies with short lifecycles only if it can be achieved rapidly. Accordingly, patent applications for short-lifecycle technologies should be filed directly in the national patent office as soon as the USPTO issues a foreign filing license. On the other hand, where the commercial value of the invention remains uncertain, it may be disadvantageous to delay national phase prosecution by filing a convention application at or near the one-year priority deadline. An additional 30 months are then available before a decision must be made as to whether to incur the expense of national phase prosecution. During this approximately 42-month window, a clearer picture may emerge as to the commercial value of the invention generally, and in the jurisdiction in question.

E. Cost Considerations

Procuring and maintaining foreign patents and trademark registrations can become very expensive. Available computer programs[125] for estimating the costs of patent and trademarks over their lives are available from:

Computer Patent Annuities	
CPA Software Solutions 225 Reinekers Lane, Suite 400 Alexandria, Virginia 22314	Tel: (703) 739-2234 Fax: (703) 739-2815 E-mail: us@cpaglobal.com Web: *www.cpaglobal.com*
Global I.P. Net	
Intellectual Property Software 564 Kaiola Street Kihei, Hawaii 96753	Tel: (808) 891-0099 Fax: (808) 891-0299 E-mail: support@globalip.com Web: *www.globalip.com*

XIII. Insurance Coverage for IP-Related Risks[126]

A. Introduction

The growing strategic importance and economic value of intellectual property ("IP") dictate that companies large and small devote considerable effort to ensuring that these vital assets are protected. Not surprisingly, the emergence of IP as a major corporate value has resulted in a significant increase in IP-related litigation. As one court has observed: "An insurance company's duty to defend intellectual property claims under the rubric of 'advertising injury' is the subject of countless lawsuits – indeed, a recent litigation explosion throughout the country."[127]

This recent increase in IP-related litigation has produced a dramatic increase in litigation between insurance policyholders and their insurers concerning the extent to which such IP-related claims are covered by general lines insurance. Typically, this insurance coverage litigation has focused on whether certain provisions of the so-called Comprehensive General Liability policy (or its post-1986 successor, the Commercial General Liability policy) obligate insurers to defend and/or indemnify their CGL policyholders for IP-related claims.

The Comprehensive General Liability and Commercial General Liability policies are both products of the Insurance Services Office ("ISO"), an organization that drafts, publishes, and disseminates policy forms widely used by the insurance industry. Both of these standard-form CGL policies provide coverage for a policyholder's liability for bodily injury, property damage, personal injury, and advertising injury sustained by third-party claimants. The standard-form CGL policy, as now drafted, is divided into two sections: (a) Coverage A, which insures against liability for bodily injury and property damage; and (b) Coverage B, which insures against liability for personal injury and advertising injury.

B. CGL Insurance Coverage

1. Relevant CGL Policy Provisions

Beginning in 1981, the so-called "broad form" endorsement to the ISO CGL policy specifically included coverage for "advertising injury." That term was defined as follows:

> [I]njury arising out of an offense committed during the policy period occurring in the course of the named insured's advertising activities, if the injury arises out of libel, slander, defamation, violation of right of privacy, piracy, unfair competition or infringement of copyright, title or slogan.

The broad form endorsement also commonly excluded from coverage claims of "advertising injury arising out of . . . infringement of trademark, service mark or trade name, other than titles or slogans, by use thereof on or in connection with goods, products or services sold, offered for sale, or advertised." Additionally, the broad form endorsement's inclusion of coverage for "unfair competition" has resulted in a split of authority as to how that term should be interpreted. Some courts have interpreted this term narrowly, as being equivalent to the common law tort of "passing off." Other courts, however, have construed "unfair competition" to encompass a wide variety of unfair business practices.[128]

In 1986, the ISO amended the CGL policy, and renamed it the Commercial General Liability policy. As one commentator has noted, this name change was implemented "seemingly to avoid the implicit invitation the former name 'Comprehensive' offered to courts to expand coverage beyond what the insurers intended."[129] The 1986 CGL policy also included "advertising injury" coverage as part of the policy's standard coverage rather than offering it through endorsement. "Coverage A" of the 1986 CGL policy insures against liability for bodily injury and property damage. "Coverage B" provides coverage for a policyholder's liability for personal injury and advertising injury.

The 1986 form CGL policy also revised the definition of "advertising injury." First, it replaced the term "piracy [or] unfair competition" with the phrase "misappropriation of advertising ideas or style of doing business." It also removed the pre-1986 CGL's express exclusion of coverage for trademark infringement. The resulting definition of advertising injury in the post-1986 CGL form provides:

"Advertising Injury" means injury arising out of one or more of the following offenses:

a. Oral or written publication of material that slanders or libels a person or organization or disparages a person's or organization's goods, products, or services;
b. Oral or written publication of material that violates a person's right of privacy;
c. Misappropriation of advertising ideas or style of doing business; or
d. Infringement of copyright, title, or slogan.

The CGL form was revised again in 1998. The 1998 CGL form combines coverage for personal injury and advertising injury into one coverage for "personal and advertising injury." The 1998 CGL removes coverage for "infringement of title," "misappropriation of the style of doing business," and "misappropriation of advertising ideas," but adds coverage for "infringement upon another's trade dress." The 1998 CGL also provides that personal and advertising injury includes, *inter alia*:

- Oral or written publication of material that slanders or libels a person or

organization or disparages a person's or organization's goods, products or services;
- Oral or written publication of material that violates a person's right of privacy;
- The use of another entity's advertising idea in the insured's advertisements;
- Infringement of another entity's copyright, trade dress, or slogan in the insured's advertisements; or
- False arrest, detention, or imprisonment.

The 1998 CGL policy form defines "Advertisement" to mean: "Notice that is broadcast to or published to the general public or specific market segments … for the purpose of attaining customers or supporters."

The "Advertising Injury" portions of the CGL policy form was most recently amended in 2001.[130] The 2001 version of the CGL's "Advertising Injury" coverage specifically includes coverage for:
- libel, slander, or disparagement;
- violation of the right of privacy;
- use of another's advertising idea in your advertisement; and
- infringement of copyright, trade dress, or slogan in your [i.e., policyholder's] advertisement.

Advertising injury arising out of the infringement of copyright, patent, trademark, trade secret, or other intellectual property rights is specifically excluded if it is not in the policyholder's advertisement.

The 2001 CGL policy form also expanded the definition of "Advertisement" to include the following: "Regarding web-sites, only the part of a Website that is about your goods, products or services for the purposes of attracting customers or supporters is considered an advertisement."

Conversely, the 2001 version of the CGL's "Advertising Injury" coverage specifically excludes:
- any offense that was not committed in the coverage territory during the policy period;
- any offense committed by an insured whose business is advertising, broadcasting, publishing, or telecasting; designing or determining content of web-based sites for others; or an internet search, access, content, or service provider;
- injury arising out of electronic chat rooms or bulletin boards that the insured hosts, owns, or over which the insured exercises control; and
- unauthorized use of another's name or product in your email address, domain name, or meta tag.

The 2004 CGL policy form modified the definition of "property damage" to stipulate that "electronic data is not tangible property." The result of this amendment was to eliminate coverage for direct damage to electronic data and for the loss of use of data that are not physically injured, by removing such losses from the scope of "property damage." Particularly, in the 2004 CGL policy form Coverage A, ISO introduced language intended to restrict coverage in connection with loss of electronic data, i.e., coverage for "damages arising out of the loss of, loss of use of, damage to, corruption of, inability to access, or inability to manipulate electronic data." The scope of coverage exclusion in the 2004 CGL policy form, however, is unclear.

Regardless of the scope of coverage exclusion under the CGL policy's Coverage A, liability for damage to electronic data may be covered if the policy contains form CG 00 65, Electronic Data Liability Coverage Form. This form covers an "electronic data incident" that causes "loss of electronic data," the latter term being defined as "damage to, loss of, loss of use of, corruption of, inability to access, or inability to properly manipulate electronic data."

The failure of these various CGL policies to clarify the scope of coverage for specific types of IP-related claims (i.e., infringement of trademarks, trade dress, and patents, or misappropriation of trade secrets) has resulted in varied and often contradictory judicial interpretations of the scope of the coverage afforded by these policies. As one legal commentator has noted:

> Whether insurance coverage exists for IP claims depends, at the moment, on the specific kinds of claims asserted in the underlying suit, and the court which is considering the issue. For some types of IP matters, the situation is more than simply unsettled. Coverage for trademark infringement claims under the most commonly encountered 'advertising injury' policy, for example, is the subject of a dramatic split among the circuits. Coverage for claims of trade dress, copyright and patent infringement, unfair competition, and trade secret misappropriation, under similar policy provisions, is anything but clear.
>
> Whether an intellectual property claim is insured or not can have an enormous impact on whether and how it is adjudicated. For reasons having as much to do with history as with anything else, standard commercial general liability policies insuring against 'advertising injuries' do not expressly state that claims for infringement of trademarks, trade dress and patents, or for misappropriation of trade secrets, are covered. In consequence, particularly because litigating these claims can be very expensive, suits to ascertain the reasonable expectations of the insurer and insured on this point have burgeoned.[131]

2. Advertising Injury Liability Insurance

As mentioned earlier, the ISO CGL Coverage B form provides coverage for "advertising injury." The liability covered for "advertising injury" must relate to a policyholder's advertising and other marketing activities, with the policyholder carrying the burden of offering substantial evidence that the underlying claim is covered by the policy.[132] The following subsections will briefly discuss whether the CGL Coverage B form provides coverage for IP-related risks such as unfair competition, trademark and trade dress infringement, copyright infringement, and patent infringement.

a) Unfair Competition

The definition of "advertising injury" in the 1986 CGL policy form, and forms thereafter, does not include "unfair competition." The phrase "misappropriation of advertising ideas or style of doing business" is, however, considered a reasonable substitute for "unfair competition." Some companies use the term "unfair competition" in their CGL policy, and in such an instance, the liability covered by the policy may be limited to claims of "palming off" or attempting to pass off one's own goods as those of another.

b) Copyright Infringement

The ISO CGL policy form expressly provides coverage for copyright infringement, defined as "infringement of copyright, title or slogan," one of the offenses constituting an "advertising injury." Courts have held that the CGL policy form provides coverage for alleged copyright infringement even if it did not arise in the course of advertisement, and for alleged infringement of names of creative works that are slogans.[133]

c) Trademark and Trade Dress Infringement

For purposes of ISO CGL Coverage B, "advertising injury" includes claims of trademark infringement, service mark infringement, and trade dress infringement because they are either "misappropriation of advertising ideas or style of doing business" or "infringement of [] title or slogan." Because trademark or service mark infringement necessarily involves the use of an allegedly infringing mark to identify the policyholder's goods or services, the insurer is obligated to defend its policyholder. Coverage will be implicated in a trade dress infringement claim because such a claim is considered to be based on the ground of "misappropriation of . . . style of doing business."

d) Patent Infringement

Generally, patent infringement is not covered under the ISO CGL Coverage B on "advertising injury." No coverage will be implicated in a patent infringement claim because such a claim does not occur in the course of advertising activities. Even when the policyholder advertises the alleged infringing product, the CGL policy does not provide coverage so long as the infringement claim is based on the sale, use, or importation of the product rather than its advertisement, i.e.,

direct infringement involves the making, using, selling, offering for sale or importing the patented invention and does not occur in the course of the insured's advertising activities. Similarly, an insured's alleged contributory infringement is not covered because the infringement claim does not result in an "advertising injury" or arise out of advertising activities. Some states even bar liability insurance coverage for inducing patent infringement.[134]

C. Non-CGL Insurance Coverage

The uncertain scope of CGL coverage for IP-related claims[135] led to the development of a number of new insurance products designed to provide coverage for entities seeking either to defend themselves against IP-related claims or to pursue such claims offensively. While a comprehensive examination of the specific policy options currently available is beyond the scope of this article, such coverage includes, in general, the following:

1. Media Liability or Errors and Omissions Policies

These policies specifically address the coverage needs of entities, such as media or entertainment companies, that are involved in creating or otherwise making use of non-useful intellectual property. They generally cover liabilities stemming from the dissemination of the policyholder's creative works and/or advertising for such works. Because these policies are generally written on a "named peril" basis, the coverage they afford typically extends only to the dissemination, during the policy period, of creative works that are specifically identified in the policyholder's application for coverage. Such policies typically cover a policyholder's liability stemming from causes of action, which—like the specified creative works at issue—are enumerated in the policies. Such causes of action may include one or more of the following: copyright infringement; misappropriation of ideas not subject to copyright; trademark infringement; breach of an implied contract relating to a third-party's submission of an idea or other creative material to the policyholder; defamation; trade libel; infliction of emotional distress; and violation of privacy rights. These policies do not cover claims for patent infringement, false advertising, claims brought against the insured by former employees or others who allege their having been involved in the conception or development of the policyholder's creative works at issue, liability for breach of contract, or liability for the policyholder's offensive litigation costs against other, allegedly infringing, parties.

Similar to the media liability policies, "cyber-risk"[136] policies address the coverage needs of entities for their activities in connection with the display, transmission, or other use of content on the Internet. Such policies typically cover a policyholder's liability and costs worldwide for the following causes of action – copyright infringement, misappropriation of ideas not subject to copyright, trademark infringement, breach of an implied contract relating to a third party's submission of an idea or other creative material to the policyholder, defama-

tion; trade libel, infliction of emotional distress, and violation of privacy rights. These policies, however, do not cover claims for patent infringement, false advertising, trade secret misappropriation, and breach of contract for failure to pay royalties.

2. Technology Errors and Omissions (Tech E & O) Policies

Tech E&O policies are beginning to include within their policy form or by endorsement coverage for copyright and patent infringement related to a company's provision of technology services. However, coverage limits are typically low, no more than $2 million. (See Darwin Tech E&O form and some Lloyd's forms).

3. Specialty Line, Stand-Alone Intellectual Property Insurance Policies

Insurance providers now offer several types of stand-alone policies to cover costs associated with the protection from infringement of and enforcement of intellectual property rights. The policies include: infringement liability defense and indemnity, infringement abatement or enforcement costs, infringement liability defense cost reimbursement, representations and warranties, and first party loss or impaired value.

a) Infringement Liability Defense and Indemnity

A small number of insurers have developed claims-made, indemnity policies designed to cover claims of patent, trademark, and copyright infringement that are brought against a policyholder stemming from the policyholder's use, distribution, advertising, and/or sale of its products. These policies will typically cover liability for the policyholder's defense expenses, damage awards, and settlement payments, with defense costs eroding the policies' coverage limits. These policies will not typically cover willful infringement, potential infringements that the policyholder was aware of at the time of policy inception (or litigation in which the policyholder was involved at the time of policy's inception), liability for criminal acts, and certain claims made against the policyholder by governmental entities. Note also that unless the policy allows for a retroactive date, if a claim is made during the policy period, then the policy will pay only for those past damages accrued from the time of policy inception.

The scope of coverage varies greatly. For example, some insurers will cover only those products that are expressly scheduled in the policy and only those aspects of the products that are protected by the insured's own patents. Other policy forms allow for coverage of additional insureds such as licensees, customers and other entities with whom the insured has contractual IP indemnities. Territorial coverage can be worldwide, and policy terms are typically one year.

Such policies may or may not be duty to defend policies but most will include hammer clauses. Because insurers recognize that IP litigation, particularly

patent litigation, requires special training and experience, policy holders are frequently allowed to use their own IP counsel in the event of a claim. However, most IP infringement liability policies have a self-insured retention ("SIR") or deductible that must first be satisfied and a co-insurance percentage, which insurers may increase if an insured uses its own counsel that does not satisfy the insurer's criteria or is not on the insurer's list of approved counsel. The SIR can vary from zero to several million dollars and capacity limits can vary as well. However, most IP infringement liability policies' limit of indemnity is somewhere between $1 million-$10 million.

Just as the scope of coverage and the policy forms vary greatly among insurers, the underwriting process varies as well because this a still-developing line of specialty coverage. For example, some insurers require applicants to obtain and provide to insurers legal opinions of noninfringement regarding the products the applicants wish to insure against claims of IP infringement. Other insurers will first provide a nonbinding indication of terms to give potential insureds an idea of the limit of indemnity, SIR, and co-insurance that would be offered and the estimated premium. If the potential insured chooses to go forward with applying for coverage, then it will be required to pay a nonrefundable underwriting risk review fee to the insurer before the insurer will accept the insurance application or perform its risk review.

b) Insurance for Plaintiff's Intellectual Property Enforcement Litigation Costs

A small number of companies have also developed policies to pay the policyholder's costs to sue alleged infringers of the policyholder's patents, trademarks, or copyrights. Such policies may cover as much as 75 percent or 80 percent of the policyholder's litigation costs (including costs associated with opposing any counterclaims asserting the invalidity of the policyholder's claimed IP rights), but do not cover liability for judgments or damages awarded against the policyholder. Note that some carriers offer this coverage only to non-North American companies although they will provide territorial coverage for all jurisdictions, including the US, in which the insured holds IP, assuming the IP is scheduled with the policy. Other limitations on coverage may include disallowance for claims made within a specified time period after policy inception and exclusions for infringers known at the time the policyholder applied for coverage.

The underwriting process for these types of policies includes the insurer determining not only the risk of a claim being made, but also the risk of the policyholder being unsuccessful in asserting its infringement claim. And, at the time of a claim, such policies typically require the policyholder to provide the insurer with detailed information concerning the technology at issue and an independent legal opinion as to the merits of its infringement claim. The policy may also provide that the insurer will recover any costs paid out should the policyholder recover against the infringer and for the payment of a deferred premium in the event of a recovery.

c) Intellectual Property Infringement Liability Defense-Cost-Only Insurance

At least one company has also developed "Patent Infringement Defense Cost Reimbursement Insurance" which, as its name suggests, provides insurance for the policyholder's costs in defending itself in patent litigation brought against it in courts in the United States. Under this type of policy, no coverage is provided for damage awards against the policyholder. Smaller premiums may make this type of policy more attractive to smaller companies than the defense and indemnity insurance policy.

d) First Party Intellectual Property Insurance

First party property coverage may be obtained to protect against loss of value of intellectual property assets due to events such as a legal judgment that a patent is invalid. The underwriting process requires a legal evaluation of the strength of the IP along with a valuation of the IP assets to be insured.

e) Representations and Warranties Insurance

Many representations and warranties policies exclude IP representations and warranties. Consequently, there is at least one insurer that offers IP-specific reps and warranties coverage. This includes both first party representations such as the seller has good title to the IP it is transferring to third party representations that the seller is not aware that its products infringe anyone's IP. These policy periods can be as long as three years, are typically claims made, indemnity policies and include an SIR and co-insurance percentage.

D. The Importance of Internal IP-Related Controls

The emergence of these new forms of IP-related insurance has renewed the focus on the importance of a prospective IP policyholder's internal efforts to appropriately document and safeguard its intellectual property assets. Indeed, the establishment of, and strict adherence to, internal company-wide intellectual property compliance programs will enable companies to both safeguard their own intellectual property and help ensure that their corporate activities do not infringe the IP rights of others. Although such efforts may take a variety of forms, they should include, at a minimum, the following:

- A clear statement of the company's goals, policies, and procedures regarding its use and development of its IP assets;
- A clear articulation of the respective roles to be played by company personnel in achieving the company's IP goals and in implementing and adhering to its IP policies and procedures;
- A clear articulation of the specific roles and responsibilities of both in-house and outside counsel in the creation, implementation, and ongoing development of the company's IP program;
- A clear description both of activities that would constitute violations of the company's IP policies and procedures and the consequences that would attend any such violations;
- A formal training program to familiarize company staff with the company's

IP program, including a mechanism to ensure that appropriate employees are kept informed of relevant developments in both IP law and IP insurance coverage;
- The clear delegation of responsibility for the completion of various IP-related tasks (e.g., the drafting of IP-related contracts and licenses, the registration of the company's intellectual property, etc.) to appropriate company personnel; and
- The maintenance, organization, and updating of all IP-related documents, including all documents reflecting the company's establishment of, and ongoing adherence to, the IP program.[137]

The implementation and continued refinement of such an IP program will enable the company to both reduce its IP-related risks and identify any specific needs requiring the purchase of one or more specialized IP insurance products to augment the protection afforded by its general liability policies.

Additionally, any policyholder or prospective policyholder who is interested in better safeguarding its IP-related activities by using its existing insurance or by acquiring additional coverage should keep in mind the following rules of thumb:
- Organize and retain all of the company's present and past CGL or commercial general liability policies and any and all documentation relating to the purchase and renewal of such policies and the coverage they afforded;
- Once the company's historical CGL coverage has been collected, retain outside expertise to assess the potential applicability of such coverage to any IP-related claims that might arise, and do so before the company is faced with such claims;
- Review the company's past and ongoing operations and activities to identify potential sources both of IP-related claims, in general, and claims that may be the subject of CGL advertising injury coverage provisions in particular;
- Upon the company's receipt of a demand letter or a complaint concerning IP-related matters (or other material suggesting that the company may be receiving such correspondence), it should immediately have both the subject correspondence and the company's insurance policies reviewed by someone knowledgeable in these areas; and
- After such a consultation, provide the company's insurer(s) with notice of the company's receipt of the claim (or potential claim) in question.

Finally, the availability and nature of IP-specific insurance policies are subject to change in light of continuing developments in the legal and insurance fields and the ever-changing character of intellectual property. Thus, companies should consult with both knowledgeable coverage counsel and appropriate insurance industry representatives in fashioning both their internal IP programs and their insurance coverage programs in order to take full advantage of IP-related opportunities while, at the same time, minimizing their IP-related risks.

XIV. Additional Resources

A. ACC Sources

1. Docket Articles

Raymond Millien, "Why General Counsel Should Pay More Attention to Intellectual Property," *ACC Docket* (June 2007), *available at* http://www.acc.com/resource/getfile.php?id=8491.

Tracy S. Wrycha and Courtney Holohan, "Keys for Thrifty Patent Litigation: Brainstorming with Benjamin," *ACC Docket* (Mar. 2006), *available at* http://www.acc.com/resource/getfile.php?id=6818.

Joseph R. Mangan and John L. Hines, Jr., "Beating Vendor Lock-Down: Negotiating Software Licenses for Your Organization," *ACC Docket* (Feb. 2006), *available at* http://www.acc.com/resource/getfile.php?id=6697.

Lulin Gao ET AL., "Can Your Company Enforce Its Intellectual Property Rights in China," *ACC Docket* (Jan. 2006), *available at* http://www.acc.com/protected/pubs/docket/jan06/enforce.pdf.

Karen L. Boudreau ET AL., "Five Technology Must-Knows," *ACC Docket* 23, no. 8 (Sept. 2005), *available at* http://www.acc.com/protected/pubs/docket/sept05/tech.pdf.

Karen L. Boudreau, "The Insider's Guide to Technology Procurement: 20 Practical Ways to Make Large Procurements a Success," *ACC Docket* 23, no. 7 (July/Aug. 2005), *available at* http://www.acc.com/protected/pubs/docket/ja05/procure.pdf.

Troy R. Lester, H. T. Than, and Jennifer R. Mahalingappa, "Bad Inferences No More?: Steering a Course on In-House Noninfringement Opinions After Knorr-Bremse," *ACC Docket* 23, no. 7 (July/Aug. 2005), *available at* http://www.acc.com/protected/pubs/docket/ja05/infringe.pdf.

"Basic IP Issues for Taking Your Product to Market," *ACC Docket* (July/Aug. 2005); *available at* http://www.acc.com/protected/pubs/docket/ja05/toolkit.pdf.

William Elias, II and Kirk Teska, "Managing the High Costs of Patents: Tips for Getting the Most from Your Patent Committee," *ACC Docket* 23, no. 5 (May 2005), *available at* http://www.acc.com/protected/pubs/docket/may05/patent.pdf.

Michael L. Whitener, "Negotiating the Thicket of IP Clauses: Nine Key Issues for Negotiating Intellectual Property Clauses in Consultancy Contracts," *ACC Docket* 23, no. 5 (May 2005), *available at* http://www.acc.com/protected/pubs/docket/may05/negotiate.pdf.

Jennifer L. Elgin and Paul Mamalian, "Internet Confidential: Setting Up an Effective Trademark Enforcement Program on the Internet," *ACC Docket* 23, no. 5 (May 2005), *available at* http://www.acc.com/protected/pubs/docket/may05/internet.pdf.

Eric Slater and Jeanne Hamburg, "Three Crucial Questions – and Answers – For Protecting IP in a Deal," *ACC Docket* 23, no. 3 (Mar. 2005), *available at* http://www.acc.com/protected/pubs/docket/mar05/crucial.pdf.

Melissa S. Sellers and Tracy-Gene G. Durkin, "Eternal Sunshine of the Spotless IP Portfolio: Creating and Implementing an Effective Corporate Intellectual Property Program," *ACC Docket* 22, no. 10 (Nov./Dec. 2004), *available at* http://www.acc.com/protected/pubs/docket/nd04/eternalsunshine.pdf.

Todd A. Smith, "A Taxing Legacy: Why European Copyright Levies Don't Work in the Digital Environment," *ACC Docket* 22, no. 6 (June 2004), *available at* http://www.acc.com/protected/pubs/docket/jun04/tax.pdf.

Deven J. Klein and David W. Koch, "Search Terms for Sale: Internet Poachers and Trademark Bidding," ACC Docket 22, no. 4 (Apr. 2004), *available at* http://www.acc.com/protected/pubs/docket/apr04/poachers.pdf.

Glenna Rogers and Scott D. Marrs, "Trade Secrets and Corporate Espionage: Protecting Your Company's Crown Jewels," *ACC Docket* 22, no. 4 (Apr. 2004), *available at* http://www.acc.com/protected/pubs/docket/apr04/secrets.pdf.

Nelson A. Blish ET AL., "Securing Global Patent Protection," ACC Docket 22, no. 4 (Apr. 2004), *available at* http://www.acc.com/protected/pubs/docket/apr04/patent.pdf.

William A. Wise and Kirk Teska, "Patent Literacy for In-House Counsel: Service Competitive Advantage and Protection," *ACC Docket* 22, no. 4 (Apr. 2004), *available at* http://www.acc.com/protected/pubs/docket/apr04/literacy.pdf.

Garry B. Watzke, "Technology Escrow: Protect Your Company's IP Assets and Technology Investments," *ACC Docket* 22, no. 4 (Apr. 2004), *available at* http://www.acc.com/protected/pubs/docket/apr04/escrow.pdf.

Johanna L. Werbach and Ron N. Dreben, "The Accidental Licensor: Advanced Issues in Software Licensing," *ACCA Docket* (Feb. 2003), *available at* http://www.acc.com/protected/pubs/docket/fm03/accident1.php.

John Boswell and James R. Myers, "Automated Analysis of the Patent Landscape," *ACCA Docket* (Feb. 2003), *available at* http://www.acc.com/protected/pubs/docket/fm03/automate1.php.

Philip J. Gordon, "Ensuring Brand Authenticity: How to Guard Against Product Counterfeiting," *ACCA Docket* (Jan. 2003), *available at* http://www.acc.com/protected/pubs/docket/jf03/counterfeit1.php.

Charles L. Glick and Alan S. Nemes, "Don't Be a Name Dropper: Save and Strengthen Your Company's Brands Through a Trademark Management Program," *ACCA Docket* (Jan. 2003), *available at* http://www.acc.com/protected/pubs/docket/jf03/brand1.php.

Michael B. Lachuk and James R. Myers, "IP Due Diligence in Business Transactions: Develop Your Plan Now," *ACCA Docket* (Jan. 2003), *available at* http://www.acc.com/protected/pubs/docket/jf03/diligence1.php.

Phillip B. C. Jones and Paul G. Lunn, "Pharmaceutical Market Exclusivity: Patent and Regulatory Strategies," *ACCA Docket* (Jan. 2003), *available at* http://www.acc.com/protected/pubs/docket/jf03/patent1.php.

Karen L. Boudreau, "An Introduction to Software Licensing," *ACCA Docket* (Oct. 2002), *available at* http://www.acc.com/protected/pubs/docket/on02/software1.php.

Ivy R. Martin and Patrick C. Keane, "Business Method Patents: Leveraging Your Company's Everyday Brilliance," *ACCA Docket* (Sept. 2002), *available at* http://www.acc.com/protected/pubs/docket/so02/patents1.php.

Eric M. Lee and Scott W. Pink, "Electronic Filing of Trademark and Patent Applications," *ACCA Docket* (July/Aug. 2002) *available at* http://www.acc.com/protected/pubs/docket/ja02/efile1.php.

Gregory R. Noe and John E. Villafranco, "Patriotic (and Truthful) Marketing: Substantiating a 'Made in USA' Claim," *ACCA Docket* (June 2002), *available at* http://www.acc.com/protected/pubs/docket/jj02/patriotic1.php.

Joel Michael Schwarz, "International Use of U.S. Corporate Intranets: Legal Risks and How to Avoid Them," *ACCA Docket* (Feb. 2002), *available at* http://www.acc.com/protected/pubs/docket/fm02/intranet1.php.

Scott W. Pink, "Protecting Trademarks in Cyberspace," *ACCA Docket* (Jan. 2002), *available at* http://www.acc.com/protected/pubs/docket/jf02/trademark1.php.

Scott J. Coonan ET AL., "Responding to Patent Infringement Allegations," *ACCA Docket* (Jan. 2002), *available at* http://www.acc.com/protected/pubs/docket/jf02/patent1.php.

Johanna L. Werbach ET AL., "Top 10 Copyright Issues for the Digital Age," *ACCA Docket* (Jan. 2002), *available at* http://www.acc.com/protected/pubs/docket/jf02/copyright1.php.

C. Wendell Bergere ET AL., "Understanding and Surviving ITC Litigation," *ACCA Docket* (Jan. 2002), *available at* http://www.acc.com/protected/pubs/docket/jf02/itc1.php.

2. Program Materials

Jeffrey N. Hyman and Alan P. Polaski, "Joined at the IP: A Practical Guide to Joint Collaboration/Development Deals," ACC 2006 Annual Meeting, Session 101, *available at* http://www.acc.com/resource/getfile.php?id=8148.

Nelson Adrian Blish ET AL., "IP Year in Review," ACC 2006 Annual Meeting, Session 201, *available at* http://www.acc.com/resource/getfile.php?id=8160.

William Cook ET AL., "Asserting & Protecting Your Technology Rights in Europe – How & Where to Gain a Competitive Advantage," ACC 2006 Annual Meeting, Session 211, *available at* http://www.acc.com/resource/getfile.php?id=8170.

Gordon Billheimer ET AL., "Patents Pending Changes – Recent Developments in Patent Litigation," ACC 2006 Annual Meeting, Session 301, *available at* http://www.acc.com/resource/getfile.php?id=8172.

Carolyn Blakenship and Linda Heban, "Strategic Global IP Portfolio Management," ACC 2006 Annual Meeting, Session 401, *available at* http://www.acc.com/resource/getfile.php?id=8184.

David Boyko ET AL., "Licensing from the Licensee's Perspective," ACC 2006 Annual Meeting, Session 501, *available at* http://www.acc.com/resource/getfile.php?id=8196.

David J. Gilmartin ET AL., "Hot Topics in eCommerce & Technology Law," ACC 2006 Annual Meeting, Session 511, *available at* http://www.acc.com/resource/getfile.php?id=8206.

Lulin Gao ET AL., "2008 Olympic Dreams: IP Law in China," ACC 2006 Annual Meeting, Session 601, *available at* http://www.acc.com/resource/getfile.php?id=8208.

William C. Hwang ET AL., "Merging & Acquiring IP, ACC 2006 Annual Meeting, Session 701, *available at* http://www.acc.com/resource/getfile.php?id=8220.

Billie Munro Audia ET AL., "Outsourced and Offshore: The Next Level of IP-Related Services," ACC 2006 Annual Meeting, Session 801, *available at* http://www.acc.com/resource/getfile.php?id=8232.

Carolyn R. Adler and John C. Gregory, Jr., "What Every GC Needs to Know About Managing IP Assets," ACC 2006 Annual Meeting, Session 809, *available at* http://www.acc.com/resource/getfile.php?id=8240.

Therese M. Catanzariti ET AL., "Nuts and Bolts of Copyrights, Trademarks & Patents," ACC 2006 Annual Meeting, Session 909, *available at* http://www.acc.com/resource/getfile.php?id=8251.

Lael Bellamy ET AL., "Advanced Technology Licensing Issues: What the Future May Hold," ACC 2005 Annual Meeting, Session 210, *available at* http://www.acc.com/resource/getfile.php?id=6859.

Eben Moglen ET AL., "Understanding Open Source Software," ACC 2005 Annual Meeting, Session 301, *available at* http://www.acc.com/resource/getfile.php?id=6861.

David R. Boyko ET AL., "It's a Two-Way Street: Successfully Negotiating IP Agreements for Buyers and Sellers," ACC 2005 Annual Meeting, Session 401, *available at* http://www.acc.com/resource/getfile.php?id=6873.

Rafferty Atha ET AL., "What You Need to Know to License Your Technology Outside of the U. S.," ACC 2005 Annual Meeting, Session, 410 *available at* http://www.acc.com/resource/getfile.php?id=6883.

N. Thane Bauz ET AL., "Avoiding Patent Litigation," ACC 2005 Annual Meeting, Session 501, *available at* http://www.acc.com/resource/getfile.php?id=6885.

Lynne Beresford ET AL., "Intellectual Property Year in Review," ACC 2005 Annual Meeting, Session 601, *available at* http://www.acc.com/resource/getfile.php?id=6896.

N. Thane Bauz ET AL., "Identifying and Managing IP Assets," ACC 2005 Annual Meeting, Session 801, *available at* http://www.acc.com/resource/getfile.php?id=6918.

John W. Hogan ET AL., "International License Agreements," ACC 2005 Annual Meeting, Session 901, *available at* http://www.acc.com/resource/getfile.php?id=6930.

Nelson Adrian Blish ET AL., "Patent, Trademark and Copyright Year in Review," ACC 2004 Annual Meeting, Session 101, *available at* http://www.acc.com/am/04/cm/101.pdf.

Mark K. Beesley ET AL., "Circling the Wagons: How Small Law Departments Can Protect and Maximize Corporate IP Assets," ACC 2004 Annual Meeting, Session 102, *available at* http://www.acc.com/am/04/cm/102.pdf.

Philip J. Gordon, John W. Hogan, Jr. and Robert M. Owsiak, "Basic IP Issues for Taking Your Product to Market," ACC 2004 Annual Meeting, Session 201, *available at* http://www.acc.com/am/04/cm/201.pdf.

Michelle P. Goolsby ET AL., "Somebody's Using My Brand on the Web! Now What?," ACC 2004 Annual Meeting, Session 210, *available at* http://www.acc.com/am/04/cm/210.pdf.

Wendi E. Okun and Jacqueline Studer, "Software Copyrighting 101," ACC 2004 Annual Meeting, Session 301, *available at* http://www.acc.com/am/04/cm/301.pdf.

Katrina Burchell ET AL., "Managing a Domestic and Global IP Portfolio – Strategies Beyond the Basics," ACC 2004 Annual Meeting, Session 501, *available at* http://www.acc.com/am/04/cm/501.pdf.

Bob Bailey ET AL., "Trade Secrets & Restrictive Covenants – Competing Considerations in a Mobile Marketplace," ACC 2004 Annual Meeting, Session 601, *available at* http://www.acc.com/am/04/cm/601.pdf.

N. Thane Bauz ET AL., "Profiting from Your Company's IP Assets," ACC 2004 Annual Meeting, Session 701, *available at* http://www.acc.com/am/04/cm/701.pdf.

S. Hossain Beladi ET AL., "Responding to a Patent Attack," ACC 2004 Annual Meeting, Session 901, *available at* http://www.acc.com/am/04/cm/901.pdf.

Nelson Adrian Blish ET AL., "Maximizing Value from Your IP Portfolio," ACCA 2003 Annual Meeting, Session 101, *available at* http://www.acc.com/education03/am/cm/101.pdf.

Reginald D. Davis ET AL., "Internet Hacking & IP Insurance," ACCA 2003 Annual Meeting, Session 110, *available at* http://www.acc.com/education03/am/cm/110.pdf.

Natalie Butto ET AL., "IP Basics – A Day in the Life of Counsel," ACCA 2003 Annual Meeting, Session 201, *available at* http://www.acc.com/education03/am/cm/201.pdf.

Seth E. Brown ET AL., "Internet Patents: Coming Soon to a Lawsuit Against You," ACCA 2003 Annual Meeting, Session 210, *available at* http://www.acc.com/education03/am/cm/210.pdf.

Sarah B. Deutsch ET AL., "The Digital Millennium Copyright Act: Offensive and Defensive Uses," ACCA 2003 Annual Meeting, Session 210, *available at* http://www.acc.com/education03/am/cm/310.pdf.

Kristine Karsten ET AL., "Beyond the U.S. – Taking Your IP Portfolio Global," ACCA 2003 Annual Meeting, Session 501, *available at* http://www.acc.com/education03/am/cm/501.pdf.

Rose M. Deggendorf ET AL., "ABC's of Intellectual Property Due Diligence for M&A Transactions," ACCA 2003 Annual Meeting, Session 710, *available at* http://www.acc.com/education03/am/cm/701.pdf.

Mitchell C. Shelowitz, "Non-Disclosure Agreements: Protecting Company Intellectual Property and Strategic Non-Public Business Information," ACCA 2002 Annual Conference, *available at* http://www.acc.com/chapters/program/israel/nondisclosure.pdf.

Vanessa L. Allen ET AL., "IP Issues for the Generalist," ACCA 2002 Annual Meeting, Session 902, *available at* http://www.acc.com/education2k2/am/cm/902.pdf.

Natalie Butto ET AL., "How to Build an In-House IP Shop," ACCA 2002 Annual Meeting, Session 501, *available at* http://www.acc.com/education2k2/am/cm/501.pdf.

John F. Anderson ET AL., "The Markman Hearings in Perspective," ACCA 2002 Annual Meeting, Session 901, *available at* http://www.acc.com/education2k2/am/cm/901.pdf.

John W. Hogan, Jr. and Joseph D. Yao, "Patents 101," ACCA 2002 Annual Meeting, Session 801, *available at* http://www.acc.com/education2k2/am/cm/801.pdf.

Nelson A. Blish et al., "European Patent and Trademark Law," ACCA 2002 Annual Meeting, Session 701, *available at* http://www.acc.com/education2k2/am/cm/701.pdf.

James A. Toupin and Mike Walker, "The Patent & Trademark Office Speaks," ACCA 2002 Annual Meeting, *available at* http://www.acc.com/education2k2/am/cm/101.pdf.

Heather Z. Hutchins, "Cost Effective Strategies for Managing Intellectual Property: IP Boot Camp," ACCA 2001 Annual Meeting, *available at* http://www.acc.com/chapters/program/chic/ipbootcamp.pdf.

Christopher J. Borders et al., "'I Built that Mousetrap' – Responding to Letters Alleging Patent Infringement," ACCA 2001 Annual Meeting, Session 501, *available at* http://www.acc.com/education2k1/am/cm/501CD.pdf.

Nelson A. Blish et al., "IP Case Study: Follow a New Product from Development to Launch," ACCA 2001 Annual Meeting, Session 101, *available at* http://www.acc.com/education2k1/am/cm/101.pdf.

Alexander L. Brainerd et al., "Managing IP Litigation," ACCA 2001 Annual Meeting, Session 302, *available at* http://www.acc.com/education2k1/am/cm/302CD.pdf.

Karen L. Boudreau et al., "Practical Advice on Technology Development Agreements," ACCA 2001 Annual Meeting, Session 601, *available at* http://www.acc.com/education2k1/am/cm/601CD.pdf.

Charles D. Brown et al., "Protecting IP in a Global Marketplace," ACCA 2001 Annual Meeting, Session 401, *available at* http://www.acc.com/education2k1/am/cm/401CD.pdf.

Vanessa L. Allen et al., "Developments in eCommerce Litigation—Hope or Hype?," ACCA 2001 Annual Meeting, Session 602, available at: http://www.acc.com/education2k1/am/cm/602.pdf.

Harry Baumgartner et al., "Discovery in the Electronic Era," ACCA 2001 Annual Meeting, Session 102, *available at* http://www.acc.com/education2k1/am/cm/102CD.pdf.

Alan C. Drewsen et al., "E-fense: Protecting Your Trademarks and Copyrights in Cyberspace," ACCA 2001 Annual Meeting, Session 301, *available at* http://www.acc.com/education2k1/am/cm/301CD.pdf.

R. Keenan Davis et al., "Advanced Licensing Issues on the Net," ACCA 2001 Annual Meeting, Session 509, *available at* http://www.acc.com/education2k1/am/cm/509.pdf.

B. Law Review Articles and Publications

Brett T. Cooke, *Intellectual Property Licenses and Assignments Under Chapter 11 of the Bankruptcy Code: A Brief Survey of the Nature of Property Rights Conferred and Implications Due to Reorganization*, 15 Tex. Intell. Prop. L. J. 213 (Winter 2007).

Elizabeth I. Winston, *Why Sell What You Can License?: Contracting Around Statutory Protection of Intellectual Property*, 14 Geo. Mason L. Rev. 93 (Fall 2006).

Practicing Law Institute, *Handling Intellectual Property Issues in Business Transactions 2007*, (Mar. – May 2007).

Joseph A. Massey, *The Emperor Is Far Away: China's Enforcement of Intellectual Property Rights Protection, 1986-2006*, 7 Chi. J. Int'l L. 231 (Summer 2006).

Leonard J. Feldman, Rima J. Alaily, and Chad D. Farrell, *Independent Ink at the Crossroads of Antitrust and Intellectual Property Law: The Court's Holding Regarding Market Power in Cases Involving Patents and Implications in Cases Involving Copyrights*, 30 Seattle U. L. Rev. 407 (Winter 2007).

Practicing Law Institute, *Understanding the Intellectual Property License 2006* (Oct. – Dec. 2006).

C. Online Resources

American Intellectual Property Law Association: http://www.aipla.org/

European Patent Office: http://www.epo.org/

Federal Register: http://www.gpoaccess.gov/nara/index.html

U.S. Copyright Office: http://www.copyright.gov/

U.S. Court of Appeals for the Federal Circuit: http://www.fedcir.gov/

U.S. Patent & Trademark Office: http://www.uspto.gov/

Wikipedia: http://en.wikipedia.org/wiki/Intellectual_property

World Intellectual Property Organization: http://www.wipo.int/portal/index.html.en

XV. Sample Invention Disclosure Form

INVENTION DISCLOSURE RECORD

(Use additional sheets if needed)
TITLE OF INVENTION: _____

INVENTOR(S):

Name _____
Ph. no. W._____ H._____
Mailing address _____
Place of residence (city or county, and state) _____
Citizenship _____

Name _____
Ph. no. W._____ H._____
Mailing address _____
Place of residence (city or county, and state) _____
Citizenship _____

Name _____
Ph. no. W._____ H._____
Mailing address _____
Place of residence (city or county, and state) _____
Citizenship _____

BRIEF DESCRIPTION OF THE INVENTION

Provide a brief description of your invention in your own words, following the outline given below. Sketches, prints, photos, and other illustrations, as well as reports of any nature, related to the invention should be included and referred to in this brief description.

(a) State in general terms the purpose and objects of the invention. (b) Describe old constructions and/or methods of performing the function of the invention. (c) Indicate the disadvantages of the old constructions and/or methods. (d) Describe the construction operation and/or preparation of your invention, showing the changes, additions, and improvements over what has been done before. (e) State the advantages of your invention over what has been done before. (f) State any unexpected results. (g) Indicate the best known construction, operation, and/or preparation of your invention, and any alternates. (h) If a joint invention, indicate what contribution

was made by each inventor. (i) State your opinion of the relative value of the invention. _____
_____
_____
_____
_____
_____
_____
_____

CONCEPTION OF THE INVENTION

Date of first drawings _____
Where can the drawings be found? _____
Date of first written description _____
Where can the description be found? _____
Date of first disclosure to others (oral or written) _____
To whom? _____
Date of first disclosure to others outside the company (oral or written)
_____
To whom?_____

FIRST CONSTRUCTION OF APPARATUS, COMPLETION OF PROCESS, OR PREPARATION OF COMPOSITION:

Date completed _____
Was prototype made? _____
By whom made? _____
Where can the prototype be found? _____

TEST OF APPARATUS, PROCESS, OR COMPOSITION:

Date _____
Witness(es) _____
Results _____

CONTRACTS

Was the invention conceived, built, or tested during performance of a third-party or Government contract? _____
Provide details and contract number _____
_____

SALE

Has invention been sold or offered for sale? Yes _____ No _____
Date of first sale _____
To whom? _____

Date of first offer for sale _____
To whom? _____

USE

Has invention been used? Yes _____ No _____
Date of first use _____
Describe the first use and any plans for its use in near future _____
_____
_____

RELATED PRINTED PUBLICATIONS (INCLUDING ARTICLES AND SALES LITERATURE), PATENTS, PATENT APPLICATIONS: _____

_____
_____
_____
_____
_____
_____

After the disclosure is completed, it should be signed and dated by the inventor(s) and then read, signed, and dated by two witnesses in the space provided below and also at the bottom of each additional sheet of the brief description.

Signed:

_____ Date _____
Inventor

_____ Date _____
Inventor

_____ Date _____
Inventor

Read and Understood by:

_____ Date _____
Witness

_____ Date_____
Witness

XVI. Current PCT, EP, and Madrid Convention Countries

PCT Contracting States and Two-letter Codes (139 on 1 June 2008)

AE United Arab Emirates
AG Antigua and Barbuda
AL Albania[1]
AM Armenia (EA)
AO Angola
AT Austria (EP)
AU Australia
AZ Azerbaijan (EA)
BA Bosnia and Herzegovina[1]
BB Barbados
BE Belgium (EP)[2]
BF Burkina Faso (OA)[2]
BG Bulgaria (EP)
BH Bahrain
BJ Benin (OA)[2]
BR Brazil
BW Botswana (AP)
BY Belarus (EA)
BZ Belize
CA Canada
CF Central African Republic (OA)[2]
CG Congo (OA)[2]
CH Switzerland (EP)
CI Côte d'Ivoire (OA)[2]
CM Cameroon (OA)[2]
CN China
CO Colombia
CR Costa Rica
CU Cuba
CY Cyprus (EP)[2]
CZ Czech Republic (EP)
DE Germany (EP)
DK Denmark (EP)
DM Dominica
DO Dominican Republic
DZ Algeria
EC Ecuador
EE Estonia (EP)
EG Egypt
ES Spain (EP)
FI Finland (EP)
FR France (EP)[2]
GA Gabon (OA)[2]
GB United Kingdom (EP)
GD Grenada
GE Georgia
GH Ghana (AP)
GM Gambia (AP)
GN Guinea (OA)[2]
GQ Equatorial Guinea (OA)[2]
GR Greece (EP)[2]
GT Guatemala
GW Guinea-Bissau (OA)[2]
HN Honduras
HR Croatia (EP)
HU Hungary (EP)
ID Indonesia
IE Ireland (EP)[2]
IL Israel
IN India
IS Iceland (EP)
IT Italy (EP)[2]
JP Japan
KE Kenya (AP)
KG Kyrgyzstan (EA)
KM Comoros
KN Saint Kitts and Nevis
KP Democratic People's Republic of Korea
KR Republic of Korea
KZ Kazakhstan (EA)
LA Lao People's Democratic Republic
LC Saint Lucia
LI Liechtenstein (EP)
LK Sri Lanka
LR Liberia
LS Lesotho (AP)
LT Lithuania (EP)
LU Luxembourg (EP)
LV Latvia (EP)[2]
LY Libyan Arab Jamahiriya
MA Morocco
MC Monaco (EP)[2]
MD Moldova (EA)
ME Montenegro
MG Madagascar
MK The former Yugoslav Republic of Macedonia[1]
ML Mali (OA)[2]
MN Mongolia
MR Mauritania (OA)[2]
MT Malta (EP)[2]
MW Malawi (AP)
MX Mexico
MY Malaysia
MZ Mozambique (AP)
NA Namibia (AP)
NE Niger (OA)[2]
NG Nigeria
NI Nicaragua
NL Netherlands (EP)[2]
NO Norway (EP)
NZ New Zealand
OM Oman
PG Papua New Guinea
PH Philippines
PL Poland (EP)
PT Portugal (EP)
RO Romania (EP)
RS Serbia[1]
RU Russian Federation (EA)
SC Seychelles
SD Sudan (AP)
SE Sweden (EP)
SG Singapore
SI Slovenia (EP)[2]
SK Slovakia (EP)
SL Sierra Leone (AP)
SM San Marino
SN Senegal (OA)[2]
ST Sao Tome and Principe *(from 3 July 2008)*
SV El Salvador
SY Syrian Arab Republic
SZ Swaziland (AP)[2]
TD Chad (OA)[2]
TG Togo (OA)[2]
TJ Tajikistan (EA)
TM Turkmenistan (EA)
TN Tunisia
TR Turkey (EP)
TT Trinidad and Tobago
TZ United Republic of Tanzania (AP)
UA Ukraine
UG Uganda (AP)
US United States of America
UZ Uzbekistan
VC Saint Vincent and the Grenadines
VN Viet Nam
ZA South Africa
ZM Zambia (AP)
ZW Zimbabwe (AP)

1 Extension of European patent possible.
2 May only be designated for a regional patent (the "national route" via the PCT has been closed).

Where a State can be designated for a regional patent, the two-letter code for the regional patent concerned is indicated in parentheses (AP = ARIPO patent, EA = Eurasian patent, EP = European patent, OA = OAPI patent).

Important:

This list includes all States that have adhered to the PCT by the date shown in the heading. Any State indicated in ***bold italics*** has adhered to the PCT but will only become bound by the PCT on the date shown in parentheses; it will not be considered to have been designated in international applications filed before that date.

Note that even though the filing of a request constitutes under PCT Rule 4.9(a) the designation of all Contracting States bound by the PCT on the international filing date, for the grant of every kind of protection available and, where applicable, for the grant of both regional and national patents, applicants should always use the latest versions of the request form (PCT/RO/101) and demand form (PCT/IPEA/401) (the latest versions are dated April 2007; modified versions dated July 2008 should be used on or after 1 July 2008) or, if filing the request using the PCT-EASY features of the PCT-SAFE software, the latest version of that software (which is available at: www.wipo.int/pct-safe). The request and demand forms can be printed from the website, in editable PDF format, at: www.wipo.int/pct/en/forms/, or obtained from receiving Offices or the International Bureau, or, in the case of the demand form, also from International Preliminary Examining Authorities.

B. European Patent Convention Member States (as of April 1, 2005)

- Austria
- Belgium
- Bulgaria
- Czech Republic
- Cyprus
- Denmark
- Estonia
- Finland
- France
- Germany
- Hellenic Republic (Greece)
- Hungary
- Ireland
- Italy
- Liechtenstein
- Luxembourg
- Monaco
- Netherlands (Holland)
- Portugal
- Romania
- Slovenia
- Slovak Republic
- Spain
- Sweden
- Switzerland
- Turkey
- United Kingdom

The following countries are expected to join in due course:

- Albania
- Bosnia and Herzegovina
- Croatia
- Latvia
- Former Yugoslav Republic of Macedonia
- Serbia and Montenegro

C. Madrid Protocol and/or Agreement Members (as of April 15, 2008)

- Albania
- Algeria
- Antigua
- Armenia
- Australia
- Austria
- Azerbaijan
- Bahrain
- Barbuda
- Belarus
- Belgium
- Bhutan
- Bosnia and Herzegovina
- Botswana
- Bulgaria
- China
- Croatia
- Cuba
- Cyprus
- Czech Republic
- Democratic People's Republic of Korea
- Denmark
- Egypt
- Estonia
- European Community
- Finland
- France
- Georgia
- Germany
- Greece
- Hungary
- Iceland
- Iran
- Ireland
- Italy
- Japan
- Kazakhstan
- Kenya
- Kyrgyzstan
- Latvia
- Lesotho
- Liberia
- Liechtenstein
- Lithuania
- Luxembourg
- Madagascar
- Moldova
- Monaco
- Mongolia
- Montegro
- Morocco
- Mozambique
- Namibia
- Netherlands
- Norway
- Oman
- Poland
- Portugal
- Republic of Korea
- Romania
- Russian Federation
- San Marino
- Serbia
- Sierra Leone
- Singapore
- Slovakia
- Slovenia
- Spain
- Sudan
- Swaziland
- Sweden
- Switzerland
- Syria
- Tajikistan
- Former Yugoslav Republic of Macedonia
- Turkey
- Turkmenistan
- Ukraine
- United Kingdom
- United States of America
- Uzbekistan
- Vietnam
- Zambia

XVII. About Dickstein Shapiro and the Authors

Dickstein Shapiro LLP, founded in 1953, is a multiservice law firm with more than 400 attorneys in offices in Washington, DC, New York City, and Los Angeles, California, representing clients in diverse industries with a wide variety of requirements. While Dickstein Shapiro's work generally originates from a client's need for legal representation, the Firm is mindful that legal service is but one ingredient in achieving a client's strategic business goals. The Firm prides itself on learning and understanding client objectives and partnering with clients to generate genuine business value.

The Firm's clients include more than 100 of the Fortune 500 companies, start-up ventures and entrepreneurs, multinational corporations, leading financial institutions, major motion picture studios, charitable organizations, and government officials. Dickstein Shapiro's core practice groups—Antitrust & Dispute Resolution, Business & Securities Law, Corporate & Finance, Energy, Government Law & Strategy, Insurance Coverage, and Intellectual Property—involve the firm in virtually every major form of counseling, litigation, and advocacy. Dickstein Shapiro IP attorneys work with companies in developing strategies that capitalize their intellectual property assets so as to achieve the companies' business objectives. The Firm has the experience, skill, and knowledge to successfully handle these and other intellectual property matters for clients striving to succeed in this ever changing, highly competitive arena.

The Firm's IP attorneys are engaged in all phases of pursuing, licensing, acquiring, and litigating intellectual property rights and rights in all areas of technology, including electronics, telecommunications equipment, pharmaceuticals, polymers, and other specialty chemicals, computer hardware and computer software, and biotechnology. Such litigation includes representation before the U.S. courts, the International Trade Commission, and various state courts, and coordination of litigation in foreign countries.

A. About the Authors

Gary M. Hoffman is head of Dickstein Shapiro's Intellectual Property Group of more than 80 attorneys. He focuses his practice on intellectual property law, unfair competition, and computer law, including litigation, licensing, and acquisition of rights. In more than 30 years of private practice, Mr. Hoffman has participated in more than 100 intellectual property lawsuits and has acted as lead counsel in more than half of these. These actions have involved patent, trademark, copyright, antitrust, trade secret, and unfair competition disputes. He has acted as trial counsel in both jury and bench trials before the federal and state courts and the International Trade Commission. Working in conjunction with

foreign counsel, he also has coordinated litigation in several foreign countries. Mr. Hoffman received his B.S.E.E. from the University of Pennsylvania (1967), and his J.D., with honors, from The George Washington University (1971).

Edward A. Meilman is a partner in Dickstein Shapiro's Intellectual Property Group in New York City. He graduated with an A.B. degree in chemistry from the University College of Arts and Science, New York University, and with a J.D. degree from New York University School of Law. He focuses his practice on patent, trademark, and copyright procurement, litigation, opinions, and client counseling. In the area of patent prosecution, he concentrates on chemical, pharmaceutical, and biotechnology matters. In other areas including litigation, he handles matters pertaining to all technologies ranging from recombinant DNA technology to the design appearance of an umbrella case and the copyright for a mother and child diamond pendant set. He has tried cases throughout the United States. Mr. Meilman has lectured on various aspects of intellectual property law and practice at seminars sponsored by the American Management Association and various bar groups located both in the United States and in Europe.

Kenneth W. Brothers is a partner in Dickstein Shapiro's Intellectual Property Group and focuses his practice on intellectual property trial and appellate litigation. Mr. Brothers counsels and represents clients with respect to patent, trademark, trade dress, unfair competition, trade secret, Internet, e-commerce, and antitrust matters. He has acted as trial or appellate counsel in federal and state courts in more than a dozen states, including Arizona, California, Colorado, Connecticut, the District of Columbia, Delaware, Florida, Georgia, Illinois, Indiana, Maryland, New York, North Carolina, Ohio, Pennsylvania, Tennessee, and Virginia. He is a former engineer for an independent telephone company. Mr. Brothers received his B.S. in communications and sociology from the University of Utah (1985), and his J.D., with high honors, from The George Washington University, National Law Center (1988).

Laurence E. Fisher is counsel in Dickstein Shapiro's Intellectual Property Group. Mr. Fisher focuses his practice on various aspects of intellectual property law, including patent applications, patent litigation, licensing and acquisition of intellectual property rights, and counsels clients concerning the acquisition and protection of intellectual property. His practice involves analyzing a client's intellectual property rights status, goals, and needs. He is prepared to assist clients by prosecuting patent applications; negotiating and drafting licenses for patents, trademarks, copyrights, and trade secrets; addressing the transfer of intellectual property rights in corporate transactions and restructuring; and implementing litigation concerning intellectual property rights. Mr. Fisher received his B.S.F.P.E. from the University of Maryland (1979), his M.B.A. from Drexel University (1984), and his J.D. from the Georgetown University Law Center (1989).

Donald A. Gregory is a partner in Dickstein Shapiro's Intellectual Property Group. His practice includes all aspects of IP law, with an emphasis on intellectual property licensing and counseling. Now in his 26th year in the intellectual property field, Mr. Gregory advises clients on the development, procurement, utilization, management, protection, and enforcement of their intellectual property rights, and on the establishment of company intellectual property programs and defensive strategies. He maintains a strong focus on intellectual property licensing and acquisition. He has prepared and negotiated hundreds of agreements relating to patent, trademark, copyright, trade secret licensing, product distribution, value-added reselling, joint development, consulting, and sponsored research. Mr. Gregory received his B.S. in Nuclear Engineering, with distinction, from the University of Virginia (1973), and his J.D. from the College of William and Mary Marshall-Wythe School of Law (1979).

Jon D. Grossman is a partner with Dickstein Shapiro's Intellectual Property Group, where he practices in the area of computer law with a focus on intellectual property issues, including the licensing and acquisition of software rights, with a background in patents, copyrights, and trade secrets. Mr. Grossman has years of private practice experience in computer law at Dickstein Shapiro, as well as several years as a patent examiner in the computer software area for the federal government. He has significant commercial licensing experience that includes all aspects of licensing and contracting of computer software, databases, and hardware. He also has provided a full range of counseling to clients in the areas of strategic acquisitions, outsourcing, and joint ventures. Mr. Grossman received his B.A. from the University of Chicago (1977), his M.S. in Computer Sciences from Johns Hopkins University (1982), and his J.D. from American University (1986).

Charles E. Miller is a partner in Dickstein Shapiro's Intellectual Property Group and counsels clients primarily in the chemical and pharmaceutical industries. He focuses on managing their intellectual property portfolios, and representing their interests extensively in technology-related litigation, proceedings before the U.S. Patent and Trademark Office, alternative dispute resolution, and licensing. As a practitioner, Dr. Miller also is a commercial intellectual property arbitrator for the American Arbitration Association and for the World Intellectual Property Organization. He has testified in patent and antitrust cases as an expert on patent litigation and U.S. Patent and Trademark Office procedure, and has served as special master in patent infringement litigation on appointment by the U.S. District Court. Dr. Miller received his A.B. in Chemistry from Columbia College (1963), his M.S. (1964) and Ph.D. (1966) in Organic Chemistry from Columbia University, and his J.D. from New York University School of Law (1970).

Bradley J. Olson is counsel in Dickstein Shapiro's Intellectual Property Group. His practice includes all aspects of intellectual property law, with an emphasis

on trial and appellate litigation. Mr. Olson has extensive experience in patent litigation, including discovery, motion, and trial practice, retaining experts and consultants for trial, coordinating jury focus groups, and preparing witnesses for deposition and trial testimony. He advises clients on patentability, infringement, and validity issues, with an emphasis in the biotechnology and biomedical device fields. He has prepared educational materials and lectured to organizations and businesses in the United States and Europe on issues relating to developments in intellectual property law. He has also published articles concerning intellectual property law in national business periodicals. Mr. Olson received his B.A. in Biology from Central Connecticut State University (1980), his Master of Science degree in Biology from the University of Connecticut (1985), his J.D. from Franklin Pierce Law Center (1994), and a Master of Intellectual Property Law degree from Franklin Pierce Law Center (1994).

Stephen A. Soffen is a partner in Dickstein Shapiro's Intellectual Property Group. He focuses his practice on high technology electronic, semiconductor, and medical device patent matters, including client counseling, licensing, and litigation. Mr. Soffen has assisted numerous domestic and foreign clients in developing and strengthening their intellectual property portfolios. He also devotes a substantial portion of his practice to rendering opinions and counseling clients in intellectual property matters. He has been involved in numerous intellectual property lawsuits on technologies, ranging from laser and video recording to power MOSFET transistor structure and fabrication, and arthroscopic medical devices and instruments. He also has assisted many clients in avoiding litigation and settling disputes by preparing and negotiating licensing agreements. Mr. Soffen received his B.S. in Electrical Engineering, with distinction, from Cornell University (1978), and his J.D. from Suffolk University School of Law (1982).

Salvatore P. Tamburo is a partner in Dickstein Shapiro's Intellectual Property Group. Mr. Tamburo's practice encompasses several aspects of intellectual property law, including intellectual property litigation, intellectual property licensing and counseling, the drafting and prosecution of patent applications, and the preparation of opinions on patentability, infringement, validity, and enforceability. He also has experience drafting and prosecuting patent applications in various technologies such as semiconductors, optics, robotics, imagers, and gaming software, in addition to analog and digital circuits. Mr. Tamburo received his B.S.E.E. from Polytechnic University (1989), and his J.D. from St. John's University School of Law (1998).

Stephanie K. Wade is a partner in Dickstein Shapiro's Intellectual Property Group. Her practice focuses on trademark, unfair competition, and copyright law. Ms. Wade has more than 20 years of experience in counseling clients from the United States and abroad on all aspects of trademark practice including selection, searches and opinions, registration, licensing, enforcement, due dili-

gence in corporate acquisitions, and Internet issues. Ms. Wade received her B.A. from the University of North Carolina at Chapel Hill (1977), and her J.D., cum laude, from the University of Georgia School of Law (1981).

Efthimios Parasidis is an associate in Dickstein Shapiro's Intellectual Property Group. Mr. Parasidis's practice encompasses several areas of intellectual property law, including patent, copyright, and trademark litigation. He has counseled clients in a broad range of fields, including the entertainment, pharmaceutical, medical devices, communications, and computer industries. Mr. Parasidis received his B.A. in philosophy, *magna cum laude*, from The College of New Jersey (1997), his M.Be. from the University of Pennsylvania Center for Bioethics (2000), and his J.D. from the University of Pennsylvania Law School (2000).

Amanda S. Pitcher is an associate in Dickstein Shapiro's Intellectual Property Group. Ms. Pitcher focuses her practice in the area of patent law, specifically on the preparation and prosecution of patent applications, patent litigation, and opinion work. Ms. Pitcher received her B.E. in electrical engineering from Vanderbilt University (2001), and her J.D. from the University of Maryland School of Law (2004).

Luna Samman is an associate in Dickstein Shapiro's Intellectual Property Group. Ms. Samman focuses her practice on United States and international trademark prosecution and counseling and IP litigation. Ms. Samman received her B.A. in economics and her B.S.L.A. in French from Georgetown University (2001), and her J.D. from The George Washington University Law School (2004).

John C. Snodgrass is an associate in Dickstein Shapiro's Intellectual Property Group, where he specializes in trademarks and unfair competition. Mr. Snodgrass received his B.A. from the University of Virginia (1991), his J.D. from the College of William and Mary Marshall-Wythe School of Law (1997), and his LL.M. from University College London (1998).

Rangarajan (Ranga) Sourirajan is an associate in Dickstein Shapiro's Intellectual Property Group. Mr. Sourirajan received his B.Tech. in Mechanical Engineering from the Indian Institute of Technology, Madras (1993), his M.S. in Mechanical Engineering from the University of North Carolina at Charlotte (1997), and his J.D. from the Georgetown University Law Center (2006).

Peter A. Veytsman is an associate in Dickstein Shapiro's Intellectual Property Group. Mr. Veytsman's practice encompasses preparation and prosecution of patent applications; patentability, validity, and infringement studies; and intellectual property litigation. Mr. Veytsman received his B.S. in Mechanical Aerospace Engineering from Rutgers University (1991), and his J.D. from Temple University School of Law (2000).

Michael A. Weinstein is an associate in Dickstein Shapiro's Intellectual Property Group. Mr. Weinstein focuses his practice on patent law, including litigation, licensing, and acquisition of rights. Mr. Weinstein received his B.S. from the University of Massachusetts Amherst (1988), his M.S.I.E.O.R. from the University of Massachusetts Amherst (1990), and his J.D. from the University of Miami School of Law (1993).

Megan Sunkel Woodworth is an associate in Dickstein Shapiro's Intellectual Property Group. Ms. Woodworth focuses her practice on patent law, including patent litigation, opinion work, and all aspects of patent prosecution. Ms. Woodworth received her B.S. in Civil and Environmental Engineering from the University of Illinois (2000), and her J.D., with honors, from the University of North Carolina School of Law (2003).

Rebecca L. Barbisch and Nicholas A. Gillard-Byers also contributed to the editing of Chapter II and Chapter XII, respectively.

Endnotes

[1] 35 U.S.C. § 271.

[2] 35 U.S.C. § 101.

[3] 35 U.S.C. § 171.

[4] *Power Controls Corp. v. Hybrinetics, Inc.*, 806 F.2d 234, 238, 231 USPQ 774, 777 (Fed. Cir. 1986).

[5] 7 U.S.C. § 2321 *et seq.*

[6] 35 U.S.C. § 161.

[7] 35 U.S.C. §§ 161–164.

[8] 37 C.F.R. §§ 1.171–179, 1.502–570.

[9] 35 U.S.C. § 103.

[10] 35 U.S.C. §§ 301–302.

[11] 35 U.S.C. § 251.

[12] 37 U.S.C. § 157.

[13] 15 U.S.C. § 1057.

[14] 15 U.S.C. § 1127.

[15] *Id.*

[16] *Id.*

[17] *Id.*

[18] *Id.*

[19] 15 U.S.C. § 1125(a).

[20] 17 U.S.C. § 302.

[21] It is important to be aware of the local rules that many jurisdictions have regarding patent cases, e.g., the Northern District of California and the Eastern District of Texas. These rules, as well as the docket backlog, can make one forum more attractive to a party than another forum.

[22] *See United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933); *Standard Parts Co. v. Peck*, 264 U.S. 52 (1924).

[23] *Stranco, Inc. v. Atlantes Chem. Sys.*, 15 U.S.P.Q.2d 1704, 1716 (S.D. Tex. 1990), *aff'd,* 960 F.2d 156 (Fed. Cir. 1992).

[24] *See, e.g., Wommack v. Durham Pecan Co.*, 715 F.2d 962, 219 U.S.P.Q. 1153 (5th Cir. 1983).

[25] *See Lane & Bodley Co. v. Locke*, 150 U.S. 193 (1893); *California E. Lab. v. Gould*, 896 F.2d 400, 13 U.S.P.Q.2d 1984 (9th Cir. 1990); *Neon Signal Devices v. Alpha-Claude Neon Corp.*, 54 F.2d 793, 12 U.S.P.Q. 339 (W.D. Pa. 1931).

[26] *See, e.g., Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 350 F.2d 134, 146 U.S.P.Q. 422 (9th Cir. 1965). *See Ingersoll-Rand Co. v. Ciavatta*, 542 A.2d 879, 8 U.S.P.Q.2d 1537, 3 IER Cases 1285 (N.J. 1988).

[27] *E.g., Armorlite Lens Co. v. Campbell*, 340 F. Supp. 273, 173 U.S.P.Q. 470 (S.D. Cal. 1972).

[28] *GTI Corp. v. Calhoon*, 309 F. Supp. 762, 965 U.S.P.Q. 621 (S.D. Ohio 1969).

[29] *Diamond v. Chakrabarty*, 447 U.S. 303 (1980).

[30] *Diamond v. Diehr,* 450 U.S. 175, 185 (1981).

[31] *State Street Bank & Trust v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

[32] *Id.* at 1375-76.

[33] *See* Chapter I, *infra*.

[34] The PTO Web site: www.uspto.gov contains a searchable list of licensed U.S. patent lawyers, laws, regulations, and other useful materials, as well as other searchable databases for issued patents, published patent applications, and trademark applications and registrations.

[35] *KSR Int'l Co. v. Teleflex, Inc.*, 127 S. Ct. 1727 (2007).

[36] 35 U.S.C. § 111.

[37] One such expedited program is the Patent Prosecution Highway. The Patent Prosecution Highway is a program that allows those who are seeking a patent in the U.S. or Japan to fast track a claim in one country when the corresponding claim has been accepted by the other country in a corresponding application. For more information see: http://www.uspto.gov/web/

patents/pph/pph_index.html.

[38] For more information see: http://www.uspto.gov/web/patents/accelerated/.

[39] http://www.uspto.gov.

[40] *See* 72 Fed. Reg. 46716 (Aug. 21, 2007). The rules allow for two continuation applications and one RCE for each original or proper divisional patent application.

[41] American Intellectual Property Law Association, Report of the Economic Survey (2005).

[42] 35 U.S.C. § 122 (b)(2)(B)(i).

[43] 35 U.S.C. §§ 181–88.

[44] 42 U.S.C. § 2011 *et seq.*

[45] 35 U.S.C. § 284.

[46] 35 U.S.C. § 285.

[47] *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (overruling precedent requiring an affirmative duty of due care with regard to patent rights of others and holding that, in order to establish willfulness a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent).

[48] *Patent Reform: The Future of American Innovation*: Before the S. Comm. On the Judiciary, 110th Cong. (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office), available at http://www.uspto.gov/web/offices/com/speeches/2007jun06.htm.

[49] *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.*, 383 F.3d 1337, 1344 (Fed. Cir. 2004) (en banc).

[50] *See MedImmune, Inc. v. Gennentech, Inc.*, 127 S. Ct. 764 (2007).

[51] *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006).

[52] 19 U.S.C. § 1337(e).

[53] American Intellectual Property Law Association, Report of the Economic Survey (2005).

[54] For more information on the different types of trademarks, see J. Thomas McCarthy on Trademarks and Unfair Competition (4th Ed. 2008) (hereinafter McCarthy) §§ 7.9-7.52.

[55] *See* McCarthy Chapters 2 & 3.

[56] *See* McCarthy Chapter 11 ("The Spectrum of Distinctiveness of Marks").

[57] *See* McCarthy §§ 11:5-11:14.

[58] *See* McCarthy §§ 11:62-11:72.

[59] *See* McCarthy Chapter 15.

[60] *See* McCarthy §§ 12:20-12:22.

[61] *See* McCarthy Chapter 30.

[62] *See* McCarthy Chapter 23.

[63] For more information on one such company, see www.thomson-thomson.com.

[64] www.dnb.com.

[65] www.lexis.com.

[66] www.westlaw.com.

[67] One such group is Kelly Pioneer Group, Inc., www.kellypioneer.com.

[68] *See* McCarthy Chapter 19.

[69] *See* McCarthy §§ 19:133-19:143.

[70] For more information, see oami.europa.eu.

[71] *See* McCarthy §§ 12:26-12:36.

[72] *See* McCarthy §§ 19:144-19:148.

[73] Pub. L. No. 100-568, 102 Stat. 2853 (Oct. 31, 1988).

[74] Title III of Pub. L. No. 98-620, 98 Stat. 3335, 3347 (Nov. 8, 1984) adding chapter 9 to Title 17 of the *United States Code*.

[75] Title I of Pub. L. No. 105-298, 112 Stat. 2827 (Oct.

27, 1998).

[76] Pub. L. No. 105-304, 112 Stat. 2860, 2887 (Oct. 28, 1998).

[77] Note that live broadcasts of sporting events are afforded protection when recorded simultaneously. 17 U.S.C. §101. However, this protection extends only to the broadcast itself and not the underlying event. *See Nat'l Basketball Assoc. v. Motorola, Inc.*, 105 F.3d 841 (2nd Cir. 1997).

[78] 17 U.S.C. § 102(b).

[79] 17 U.S.C. § 101.

[80] An offering to distribute copies to a group of persons for purposes of further distribution, public performance, or public display, also constitutes publication.

[81] 17 U.S.C. § 101.

[82] *See* www.customs.gov.

[83] The *best edition* if first published in the U.S. *on or after* January 1, 1978; otherwise, as first published.

[84] 17 U.S.C. § 107.

[85] *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 262 (9th Cir. 1996).

[86] *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F#2d 1159, 1162 (2d Cir. 1971).

[87] *See Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

[88] *See Metro Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd,.* 545 U.S. 913 (2005).

[89] 17 U.S.C. § 504(c).

[90] David Hechler, *Worker Leaves, with Company Data: Investigating a new employee's sudden resignation, GC found evidence of stolen trade secrets*, Legal Times, vol. 25, no. 28 (American Lawyer Media, ALM LLC 2002).

[91] *Trade Secrets: A State-By-State Survey* (ABA Section of Labor and Employment Law 2006).

[92] *See Trade Secrets: A State-by-State Survey* (ABA Section of Labor and Employment Law 2006).

[93] The Restatement (Second) of Torts does not address trade secret law. The Reporters declined to include trade secret law because they believed the topic to be outside the scope of traditional tort law and to be covered by unfair competition and trade regulations law.

[94] Restatement of Torts § 757, *cmt. b.*

[95] Or. Rev. Stat. § 646.461(4) (2007).

[96] *Clark v. Bunker*, 453 F.2d 1006, 1009, 172 USPQ 420, 422 (9th Cir. 1972); *Amvac Chem. Corp. v. Termilind, Ltd.*, No. 96-1580 - HA, 1999 WL 1279664 (D. Or. Aug. 3,1999); *Religious Tech. Ctr. v. Netcom On-Line Commc'n. Servs.*, 923 F. Supp. 1231, 1251 (N.D. Cal. 1995).

[97] The Economic Espionage Act, modeled after the UTSA, defines trade secrets as: "all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs or codes, whether tangible or intangible, and whether or how stored, compiled, or memorized physically, electronically, graphically, photographically, or in writing if, (b) the owner thereof has taken reasonable measures to keep such information secret; and (c) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by the public." 18 U.S.C. § 1839(3).

[98] Restatement (Third) of Unfair Competition, § 39 (citing *Rockwell Graphic Sys., Inc. v. Dev. Indus.*, 925 F.2d 174, 179-180 (7th Cir. 1991)).

[99] Milgrim, § 1.01[2][a], at 1-31. ("Information is readily ascertainable if it is available in trade journals, reference books, or published materials."). S*ee, e.g., T. P. Labs., Inc. v. Huge*, 261 F. Supp. 349 (E.D. Wis.1965), *affirmed* 371 F.2d 231 (7th Cir. 1966); *Public Sys., Inc. v. Towry*, 587 So.2d 969 (Ala. 1991); *Dynamics Research Corp. v. Analytic Sci. Corp.*, 400 N.E.2d 1274 (1980); *Van Prods. Co. v. General Welding & Fabricating Co.*, 419 Pa. 248, 213 A.2d 769 (1965); *Microbiological Research Corp. v. Muna*, 625 P.2d 690 (Utah 1981).

[100] Donald A. Gregory, *et al.*, *Introduction to Intel-*

lectual Property Law, 205 (Bureau of National Affairs, Inc., 1994) (authors illustrate this point by suggesting that a nonstick substance that is generally known and used in the aerospace industry can be protected as a trade secret when applied to housewares.)

[101] *See, e.g.*, *E.I. du Pont de Nemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970), *cert. den.* 400 U.S. 1024 (1970) (holding that reasonable secrecy does not require companies to protect their plant construction sites from airplane reconnaissance corporate espionage).

[102] John S. Demott, *Fiddling with the Real Thing*, Time Magazine, May 6, 1985, http://www.time.com/time/magazine/article/0,9171,967559,00.html.

[103] Milgrim, § 1.01[2][a] at 1-30 (as defined by the Restatement of Torts, section 757, comment (f)).

[104] Restatement of Torts § 757, *comment b* ("Novelty and invention are not requisite for a trade secret as they are for patentability"). Restat. 3d of Unfair Competition, § 39 ("Novelty in the patent law sense is not required.").

[105] Gregory, at 209. Note, however, that an injunction continues only so long as the trade secret exists. Once a trade secret becomes generally known, a party subject to an injunction may apply to the court to have the injunction terminated. *Id*. at 210, citing UTSA §2, U.L.A. at 449.

[106] Stanley H. Lieberstein, *Who Owns What Is in Your Head?: A Guide for Entrepreneurs, Inventors, and Creative Employees* 134 (Wildcat Publ'g 1996).

[107] Francis J. Burke, Jr., *et al*., *Protecting Trade Secrets In A Digital World,* http://www.steptoe.com/assets/attachments/1121.pdf (Steptoe & Johnson LLP May 2003).

[108] Lieberstein, *supra* note 72, at 106.

[109] *See* J. Schlicher, *Patent Law: Legal and Economic Principles* (West Group, 2d ed., 2000.)

[110] United States patent law provides a single exception, codified in 35 U.S.C. § 271(f), for components supplied from the United States for "combination" abroad. Congress enacted this exception to close a loophole in the law that allowed infringers to export components for assembly abroad. *See Deepsouth Packing Co. v. Laitram Corp*., 406 U.S. 518, 528 (1972) (holding unassembled machines could not infringe under existing law because the right to exclude granted by the patent applied only to the "operable assembly of the whole and not the manufacture of its parts").

A recent Supreme Court case, *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007), examined the applicability of this section of the law to computer software. The Court held that computer software is similar to a blueprint, and though "[it] may contain precise instructions for the construction and combination of the components of a patented device," the software is not a component unless it is "expressed in a computer-readable 'copy,' *e.g.*, on a CD-ROM." 127 S. Ct. at 1755, *see also NTP, Inc. v. Research in Motion, Ltd.,* 418 F.3d 1282 (Fed. Cir. 2005) (citing *Deepsouth Packing Co. v. Laitram Corp*., 406 U.S. 518 (1972), holding use of domestic devices with a system partially operating abroad did not constitute infringement under § 271(f)).

[111] Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 828 U.N.T.S. 221; Berne Convention Implementation Act of 1988, Pub.#L. No. 100-568, § 13, 102 Stat. 2853, 2861 (1988); Universal Copyright Convention. 1974 WL 166720 (U.S. Treaty), T.I.A.S. No. 7868, 25 U.S.T. 1341. See 17 U.S.C.A. § 104. Note that, in addition, the United States maintains bilateral copyright treaties with several countries.

[112] As of June 11, 2008, the U.S. House and Senate Judiciary Committees are considering the "Patent Reform Act of 2007," bills H.R. 1908 and S. 1145, respectively.

[113] The deadline for filing a design patent application, rather than a utility or plant application, is six months after filing of the priority application.

[114] The EPO also has a branch at The Hague, The Netherlands (Article 6, EPC), where the Receiving Section and the Search Divisions are located. The Examining and Opposition Divisions as well as the Boards of Appeal are located in Munich, Germany.

[115] The EPC is separate from the European Union, and its membership is different. Thus, EU members have long debated implementing European Community Patents to provide for patent protection across the European Union based on a single patent application, enforceable in any European Union country. Though the measure was stalled for several

years, as of April 2007, the European Commission is attempting to move forward. See http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/463&language=EN (last accessed Oct. 3, 2007). The Commission believes that an integrated approach that combines elements of both the draft European Patent Litigation Agreement (EPLA) and European Community Patent would go a long way in overcoming the current differences among Member States. Specifically, the Commission advocates creating a unified and specialized patent judiciary with jurisdiction over European and future Community patents. See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0165:FIN:EN:PDF at 8-14 (last accessed June 11, 2008).

[116] Note the difference from the PCT, where the applicant must be a resident or national of a PCT state.

[117] The EPC allows patentability for any invention susceptible of industrial application that is new and involves an inventive step.

[118] Some U.S. applicants file a PCT application at 12 months designating the EPO, JP, CA, etc., and then enter the regional phase at 31 months instead of filing directly with the EPO at 12 months. At the 31-month entry point, note that one does not need "the request for grant" but rather a form for regional entry.

[119] The London Agreement, proposed by several Contracting States in 2000, would eliminate the translation requirement for countries having an official language in common with an official language of the European Patent Office (English, French, and German). In March 2006, France, one of the countries who must approve the Agreement for it to come into effect, voted against it. Thus, for the foreseeable future, translation costs will remain a major cost and concern for European patent applicants.

[120] In some countries, it may be possible to file a national application after the priority year has passed if benefit of the U.S. priority date is not claimed. Depending on the local patent law, such filing will usually be limited to cases in which no public disclosure or publication of the invention has been made.

[121] The EPLA would create an integrated judicial system for European patents, including uniform rules of procedure and a common appeal court. In its most recent communication regarding a unified Community Patent System in Europe, the European Commission has suggested that a unified system combining elements of both the draft EPLA and Community patent standards would accomplish the same goals. See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0165:FIN:EN:PDF at 8-14 (last accessed Oct. 3, 2007).

[122] *eBay, Inc. v. MercExchange L.L.C.*, 126 S. Ct. 1837 (2006) reversed U.S. precedent that a patentee is automatically entitled to a permanent injunction upon a finding of infringement of a valid patent. In recent cases finding infringement, several district courts have declined to enter injunctions after assessing reasonable royalties on the infringing product, instead creating *de facto* compulsory licenses. *See, e.g.*, *Finisar Corp. v. DirecTV Group, Inc.*, No. 1:05-CV-264 2006 WL 2699732 (E.D. Tex. Aug. 04, 2006) (holding no irreparable harm because patentee never made an attempt to practice the patented technology and compulsory license adequately compensated patentee).

Even where a permanent injunction is justified, the Federal Circuit is apt to stay the injunction pending the resolution of appeals. *See, e.g.*, *Verizon Servs. Corp. v. Vonage Holdings, Inc.*, No. 07-1240, *slip-op at *1* (Fed. Cir. April 24, 2007) (staying permanent injunction granted by a district court). One noted risk of the expected increase in compulsory licensing after *eBay* is that infringement actions will be reduced to commonplace business costs.

[123] The USPTO began accepting Madrid Protocol applications on November 2, 2003. Other member countries are listed in Chapter XV.

[124] Applicants may only designate Contracting Parties to the Protocol, and not all members of the original Madrid Agreement are Contracting Parties.

[125] This list does not constitute an endorsement or recommendation by Dickstein Shapiro LLP.

[126] This chapter was revised with the assistance of Ian Lewis and Kimberly Klein Cauthorn of Samian Underwriting Agencies Ltd.

[127] *See Winklevoss Consultants, Inc. v. Fed. Ins. Co.*, 991 F. Supp. 1024, 1026 (N.D. Ill. 1998).

[128] *See Novell, Inc. v. Federal Ins. Co.,* 141 F.3d 983 (10th Cir. 1998) (acknowledging this divergence in authority); *see also* D. Peter Harvey, *Insurance for Intellectual Property Claims: The Growing Coverage Debate*," 6 No. 2 Intell. Prop. L. Bull. 1 (Fall 2001) (hereafter "Harvey"); Christopher L. Graff, *Insurance*

Coverage of Trademark Infringement Claims: The Contradiction Among the Courts, and the Ramifications for Trademark Attorneys," 89 Trademark Reporter 939 (1999); Note*: Advertising Injury Coverage: An Overview*, 65 S. Cal. L. Rev. 919 (1992).

[129] *Harvey*, *supra*, at 3.

[130] Effective December 1, 2004, ISO amended the CGL policy and introduced two completely new coverage forms. The December 2004 amendments, however, did not substantively affect the portions of the CGL policy form discussed in this section.

[131] *Harvey*, *supra* at 2-3.

[132] *See generally* John Alan Appleman, *Appleman on Insurance § 131.3* (2d ed. 2007) (hereafter "*Appleman*").

[133] *Appleman*, *supra*.

[134] Cal. Ins. Code § 533.

[135] For additional discussions of this topic, *see* David A. Gauntlett, *Insurance Coverage for Intellectual Property Assets,* Aspen Law & Business (1999), at Ch. 17; Melvin Simensky and Eric C. Osterberg, *The Insurance and Management of Intellectual Property Risks*, 17 Cardozo Arts & Ent. L.J. 321 (1999) (hereafter "Simensky and Osterberg").

[136] *See generally* Richard Raysman, Peter Brown & Jeffrey D. Neuburger, *Emerging Technology: Forms & Analysis*, Emerging Tech. § 3.17 (2007).

[137] *See Simensky and Osterberg, supra*.