

Primers

A. BASIC DEFINITIONS OF INTELLECTUAL PROPERTY RIGHTS

1. INTRODUCTION

This article focuses on several distinct "intellectual property rights," established under federal and state law, which may affect a business. A patent protects the right to exclusive use of an invention. A trade secret consists of confidential information which provides the owner with a competitive advantage in the marketplace. A copyright comprises five distinguishable, exclusive rights in the use of a work of authorship. The identifiers of the source of goods or services can encompass several legal concepts, including trademarks, service marks, trade dress and trade names.

For many businesses, the most valuable assets, in addition to capital, are found in these proprietary rights. The ability to successfully compete may arise from product and service differentiation, advantageous business methods, or the established "name" or goodwill associated with the enterprise and its products. The maintenance of these advantages is made possible by properly establishing and enforcing these intellectual property rights.

2. PATENTS

a. The Nature of Patent Protection

Patents are governed by federal law, and protect the new, useful and "unobvious" features of a product or process. A patent preserves to the owner for a limited time the exclusive right to make, use and sell an invention. The patent does not give the owner any affirmative right to make or use an invention, and is not required in order for the owner to market a product or service.

A patent is obtained by filing an application with the United States Patent and Trademark Office. The patent itself is a document of several pages which includes a description of the inventive concept, and concludes with one or more "claims" which legally define the invention. The application procedure includes a substantive examination of the invention and a comparison with the "prior art," and can take a couple of years to complete.

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During the pendency of a patent application, no substantive patent rights exist. However, while the patent application is pending with the United States Patent Office, the prospective patent owner may mark its product with the legend "Patent Pending" or "Patent Applied For." This designation may in fact yield a competitive advantage. A potential competitor may refrain from entering into the market with the possibility that a patent will issue at any time. Since patent applications are kept secret during their pendency, the threat of a soon-to-issue patent is a real one. Competitors will be understandably hesitant to invest significant sums necessary to "tool up," develop an inventory, and proceed with marketing, if an injunction could issue at any time to defeat these efforts.

Patents may be one of three types.

i. Utility Patents. A utility patent covers the functional aspects of a product (or process), i.e., the manner in which it is constructed or functions to achieve a given result. A utility patent has a term extending from issuance to twenty (20) years after the application date, and may be obtained for any "new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof" A utility patent cannot be obtained for certain non-statutory subject matter, such as scientific principles. However, the application of a mental process or physical law to produce a new and useful result may be patentable.

ii. Design Patents. A design patent covers "any new, original and ornamental design" of a product. Design patents are particularly well adapted for protecting certain types of products, such as those (e.g., furniture) in which the design is the basis for product appeal. In some instances, the appearance of the product is also closely related to its function (such as a Frisbee). For these types of products, protecting the design can be tantamount to protecting the function (as by a utility patent), and yet the design patent is generally easier and less expensive to obtain than the utility patent. However, a design which is dictated by purely functional requirements is not protectable by a design patent.

iii. Plant Patents. A plant patent may be obtained by one who invents or discovers, and asexually reproduces, certain distinct and new varieties of plants.

Infringement of any of the patent types occurs if another makes, uses, imports or sells a product or process which falls within the scope of the patented invention. The remedy for patent infringement is by civil action, and the patent claimant may obtain an injunction, damages, and in certain cases may recover its reasonable attorney fees and up to a trebling of damages.

b. Requirements for Patentability

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The patentability of an invention is judged as of the date the invention is made. The date of invention is established when the invention has been conceived and "reduced to practice." Reduction to practice refers to the actual making of the invention and demonstrating its operability under normal conditions. However, there is no requirement that an invention actually have been made in order to file a patent application. Instead, the law provides that the filing of a patent application constitutes a "constructive" reduction to practice. Thus, the date of invention may be established either by actually constructing the invention, or by filing a patent application.

Patentable subject matter must be new, useful and unobvious. Utility is readily established in most instances. Novelty and unobviousness are more difficult to assess, and must be determined by comparing the invention with the "prior art." The prior art includes subject matter:

known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant or

patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year to the date of the application for patent in the United States

These provisions establish two classes of prior art " (1) that existing prior to the making of the invention, and (2) that existing more than a year before the patent application is filed.

If the identical subject matter to be patented existed in the prior art, then the subject matter lacks novelty, and is said to have been "anticipated" by the prior art. In deciding obviousness, three factual inquiries must be answered: the scope and content of the prior art; the differences between the claimed subject matter and the prior art; and the level of ordinary skill in the art. This information is used to decide if the invention "would have been obvious at the time the invention was made to a person having ordinary skill in the art" Other considerations in this analysis include significant commercial success of the invention; satisfaction of a long-felt but unresolved need; failure of others to satisfy that need; industry adoption or recognition of the invention (as by licensing or laudatory comments); and the fact that the prior art actually taught away from the invention. The latter considerations are arguably the most objective gauges of unobviousness.

3. TRADE SECRETS

a. Characteristics of Trade Secrets

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Trade secrets exist by virtue of state law, and constitute confidential information, not generally known, which provides the owner with a competitive advantage. A trade secret need not involve the degree of novelty necessary under the patent statutes, but can not be generally known in the industry. No formal process is required to obtain trade secrets, except that steps must be taken to assure secrecy. The unfettered disclosure of the secret results in its loss.

Trade secrets can exist throughout the products and activities of a business. Information apparent from a marketed product cannot constitute a trade secret, but a product can have trade secrets associated with it. Company information such as lists of customers for the products, marketing strategies, etc., also comprise trade secrets.

Misappropriation of trade secrets involves the breach of a confidential obligation, and can expose the taker to various liabilities. Damages may include compensation for the actual losses of the trade secret owner, as well as the unjust enrichment to the taker. Alternatively, a reasonable royalty may be charged to the taker. If the misappropriation was willful and malicious, then attorney fees may be awarded, as well as exemplary damages in an amount up to twice the amount of compensatory damages awarded. An injunction may issue against actual or threatened misappropriation. There is a three (3) year statute of limitations under the Indiana law.

b. Requirements for a Trade Secret

Trade secret qualifications are governed by state law. Federal patent law does not preempt state trade secret law, even though the secret may be patentable. In Indiana, a trade secret comprises:

information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- (1) 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
- (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

The protected information must provide an economic advantage, and steps must be taken to maintain the information in secrecy. In determining the issue of confidentiality, the structures and policies established by the owner will be considered. If the business conduct is reasonably designed to maintain secrecy of the information, and to instill in the employees the nature and importance of the secrecy,

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then a trade secret can be supported. In a recent example, trade secrets were found to exist in a customer list of a video store where the list could not be created other than through the establishment's business, it had an economic value to the business, and reasonable efforts were taken to preserve secrecy including suitable instructions to the computer programmers and operators, and locking up the data.

4. COPYRIGHTS

a. The Nature of Copyright Protection

Copyrights are covered by the Copyright Act of 1976, and protect certain types of works of authorship. Such works include literary works (including computer programs); musical works; dramatic works; choreographies; pictorial, graphic, and sculptural works; motion pictures; and sound recordings.

The copyright provides exclusive right to the work, and actually encompasses the five distinct and separable legal rights to (1) reproduce the work, (2) prepare "derivative" works, (3) publicly distribute the work, (4) publicly display the work, and (5) publicly perform the work. 32 The most fundamental right is to reproduce the work in copies. The preparation of derivative works refers not only to the making of copies, but also to modified forms such as translations, dramatizations, abridgements, motion picture versions and the like. Public performance rights relate typically to literary, musical, dramatic, and choreographic works, and motion pictures.

Anyone who "violates any of the exclusive rights of the copyright owner" is an infringer of the copyright. Infringement generally requires a substantial copying of the copyrighted subject matter. Determination of copying will typically involve consideration of two factors " (1) similarity of the works, and (2) access to the copyrighted work. These two factors may be viewed as lying on opposite ends of a continuum. If there was clear access to the copyrighted work, then less similarity will likely be necessary for infringement to be found. If the copy is highly similar to the copyrighted work, then access may be presumed.

Remedies for infringement can include an injunction, impounding and destruction of the infringing items, damages (actual or statutory), court costs, and attorney fees. It is a criminal offense to willfully infringe another's copyright for commercial gain, or to fraudulently remove the copyright notice.

The exclusivity of a copyright is limited by the "fair use" doctrine and other statutory exceptions. The fair use doctrine permits copying without permission, if such use is reasonable and is not unduly harmful to the interests of the copyright owner. Fair uses are generally related to public-oriented uses such as teaching, news reporting, research and the like. Factors considered in determining if a use fits

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within this doctrine include the purpose and character of the use, such as was it for profit; the substantiality of the portion of the work that was used; the nature of the copyrighted work; and the effect of the use on the market for or value of the work. Numerous specific guidelines are adopted in the statutes for uses by teachers and classrooms. Other limited exceptions to the exclusivity of copyright also exist with respect to a variety of uses including libraries and archives, jukeboxes, cable TV systems, and religious services.

b. Qualifications for Copyright

Copyrightable works must be "fixed" in a tangible medium, be original, and have an appreciable amount of creativity. The original expression of the idea is protected, but not the idea itself.

The configuration of a device or product can be copyrightable, but the copyright will not apply to "primarily functional" features. The copyright on product designs is comparable to the design patent, except that copyright does not require that the work be "useful" in the patent sense.

However, a work must have a minimum level of originality and creativity to be copyrighted, and this corresponds loosely to the novelty and unobviousness requirements for patent.

A copyright is registrable with the Copyright Office, and requires that copies of the work bear the copyright "notice" (e.g. "Copyright 1999 Thomas Henry"). The copyright has a limited duration depending on the manner in which the copyrighted work was created. In general, the copyright extends to seventy (70) years after the death of the last surviving author of a work. For an anonymous work or a "work for hire" (discussed later), the term of copyright is the shorter of ninety-five (95) years after the work was first published or one hundred (100) years after the work was created.

5. SOURCE IDENTIFICATION

Source identifiers are used to convey to the public that a product or process comes from a particular business. Each identifier carries a degree of recognition value which can be equated to the level of goodwill developed by the source business. Source identification can be achieved by trademarks, service marks, trade names, and trade dress.

a. Trademarks and Service Marks

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Trademarks and service marks are governed by state and federal law, and may be registered at either level. The term "trademark" includes:

any word, name, symbol or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods, including a unique product, and distinguish them from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.

Service marks are essentially identical to trademarks, except they are used to identify and distinguish services and the source of the services.

Trademarks and service marks can be categorized as "suggestive" " which suggest the product but do not describe it, or "fanciful" " which in no way relate to a description of the product. "Descriptive" terms may be trademarks if they acquire "secondary meaning." However, generic terms (such as "Lite" for a low-calorie beer) cannot be trademarks, and exclusive use of such terms will not be given to one person. A term which expresses the name of a product, rather than the source, is generic and not registrable.

Rights in a trademark or service mark are established by use of the mark in commerce. A mark has no inherent value, but acquires its value to the extent that it is associated with a particular source of goods or services, and the established goodwill associated therewith. Forging this goodwill requires use of the mark with the goods or services.

A trademark or service mark right is infringed by another's use of a mark which creates a "likelihood of confusion" between the two marks. The likelihood is assessed by considering several factors, including: the similarity of the marks; the similarity of the goods or services with which the marks are used; and the channels of trade in which the goods or services are marketed. Evidence of actual confusion will provide strong support for an action on this basis. Remedies for infringement include an injunction, the infringer's profits, damages, costs, destruction of the infringing articles, and in certain circumstances, exemplary damages and attorney fees.

Registration in Indiana is accomplished by submitting to the Trademark Division of the Secretary of State a filing fee and an application stating the date of first use of the mark, and listing the related goods or services and identifying classifications. The application must also declare that no other has the right to use of the mark, but registration in Indiana creates no statutory presumption of right to use or priority in favor of the registrant. The registration is valid for ten (10) years. The term is renewable for additional ten (10) year terms by filing an application and fee within six (6) months prior to expiration of the current term.

Similar provisions apply with respect to federal registration with the United States Patent and Trademark Office. However, a U.S.

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trademark application can be filed based upon a bona fide "intent to use" the mark in interstate commerce, although the registration will not issue until use actually occurs. Assignments should be recorded or they will be invalid against a subsequent purchaser for value and without notice.

The federal registration gives the trademark owner several advantages. The registration serves as a notice of a claim of ownership of the mark, so that no subsequent user can adopt the mark in good faith. There is a presumption as to ownership and exclusive right to use the mark if it has been registered. In certain instances the registration may be conclusive evidence of the right to exclusive use of the mark. Also, the registration permits the owner to use the registration symbol®.

b. Trade Names

A trade name is a business name, including assumed names and fictitious names, used to indicate the true legal identity of a corporation, partnership or other entity. Trade names are frequently thought of as trademarks, but they are not the same, and registration of pure trade names is not available. However, trade names can in proper circumstances be used as trademarks. Corporate names may be reserved and registered in Indiana. However, no substantive right to the use of a name is created by filing in Indiana.

c. Trade Dress

Trade dress is a concept similar to trademarks, and refers to the overall appearance of a product or its packaging. The trade dress of a product may include the size, shape, coloring and overall design of the product or of its package. The use of distinctive colors, lettering, and container configurations can all establish trade dress rights. If the distinctive features of the packaging have attained sufficient recognition in the trade as identifying the source of the product or service, then copying by competitors can be actionable.

6. INTELLECTUAL PROPERTY IN A BUSINESS

A great variety of intellectual property rights may arise in the business environment. As an example, consider the fictitious Smith Computer Corporation which manufactures and sells various computer-related products, including computer software and accessories such as specially designed tables. Smith Computer also provides certain support services, including programming and mechanical service. Potential intellectual property rights of Smith Computer would include the following:

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a. Patent Rights:

Mechanical design of the computer tables

The computer software, particularly if it interrelates with computer hardware in some manner

Novel manufacturing methods or equipment used in production of the computer tables

Specially developed tools used in servicing products

Ornamental designs of products such as computer tables

b. Trade Secrets:

Any non-disclosed aspects of the computer software

Internal methods of doing business, such as office management and policies, handbooks, and salary schedules

Manufacturing techniques, processes, or equipment, and special formulations for materials used

Lists of customers, suppliers, distributors, etc.

Knowledge of special requirements of customers or of special business aspects of dealing with suppliers

New product developments, ongoing research, projected direction of new development work or territorial expansion

Financial information such as pricing, profits, salaries, etc.

c. Copyrights:

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Computer software, user and reference manuals

Promotional materials, ads, catalogs, press releases

Certain ornamental, non-functional aspects of product designs

Product packaging, package inserts

Sales training manuals, technical bulletins, sales presentations

d. Trademarks, etc.:

Non-descriptive marks used in connection with products (trademarks) or services (service marks)

Slogans or phrases used in advertisement of goods or services

Distinctive packaging for the software

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