

WHO PROTECTS THE INTELLECTUAL PROPERTY OF YOUR BUSINESS?

Whether it is a customer list, a trademark, a marketing campaign, or a new process, intellectual property can be the most valuable asset of your business. And yet, at many businesses, the identification and protection of these assets is relegated to an ad hoc committee consisting of operations officers, the human resources manager, and tech support personnel. By understanding the various forms in which intellectual property exists and the protection available for each form, you will be in a better position to safeguard and exploit these assets and also avoid infringing assets belonging to others.

In the article below, Sheppard Mullin provides an introductory roadmap exclusively to TFG's clients on this critical issue.

Trade Secrets. The most common type of intellectual property found in businesses today is trade secrets. The most common type of trade secret is customer information. Customer information includes not only the identity and contact information of a customer, but as importantly, a customer's buying habits including product preferences, pricing, and timing. Trade secrets may also include non-patented processes, non-copyrighted software or customized spreadsheets/reports, employee information, and certain specialized business methods.

Trade secrets are protected against theft by statute in California (Civil Code section 3426 et seq.). If a former employee, a competitor, or other persons misappropriates your trade secrets, this statute provides remedies including injunctive relief, damages, and potentially attorneys' fees.

But, in order for confidential information to qualify as a trade secret, it must meet two essential requirements.

First, it must derive independent economic value from not being generally known. This tends to be an inherent characteristic over which a business may not have much control. Importantly, though, the mere fact that confidential information can be found for instance among other information in the yellow pages or in trade directories is insufficient to deny it protection as a trade secret. While the names of your customers may be available in the yellow pages or in a trade directory, the presence of thousands of other names makes your specific list valuable and unknown.

Second, a business must take "reasonable steps" to maintain the secrecy of the information. This factor, by contrast, requires active attention. Businesses can and should safeguard trade secrets through a number of mechanisms including employee policies and procedures, employee contracts with confidential information provisions and non-solicitation provisions, password protected computers, limited dissemination of information, proper marking of documents, proper disposal of reports/spreadsheets, and exit interviews for departing employees. The more such steps a business takes, the less likely it is that a former employee or competitor will be able to misappropriate information in the first instance.

Proper protection of trade secrets constitutes a key obligation for every business.

TRADEMARKS. A trademark is any name recognized by the public as distinguishing a particular source of goods or services or a particular quality. Of course, trademarks include the names of products you manufacture, market, and sell. But, they also include any name by which the public comes to associate a product or service with your business, such as the unique name of your business and the various names under which your business operates. In addition to words, designs (Cingular Man), sounds (CNN tune), and even colors (green for John Deere) can be trademarked for particular goods or services in appropriate circumstances.

To be entitled to protection, marks must be distinctive. Marks which are either generic or solely descriptive (such as Mattress Store or Law Firm) are not generally entitled to protection, nor are they good repositories for goodwill - because there will be many similarly-named competing businesses. Marks that are suggestive or even fanciful are both entitled to protection and constitute good "accounts" in which to accrue the goodwill of a business (e.g., Microsoft/Kodak/Xerox).

The Coca-Cola® trademark is generally recognized as the most valuable mark in the world, at possibly \$50 billion dollars. But every business has one or more marks in which its intangible goodwill, including past advertising, sales, customer service, and marketing, is essentially stored.

For instance, Ford Motor Company has applied over time for nearly 3,000 marks for its business including not only the well-known names of its cars such as Mustang®, but also Ford® for all of its cars and the business itself, Built Ford Tough® and Travel Well™ for its marketing activities, Ford Credit® for its finance subsidiary, Powerlease™ for a lease

program. While your business may not have 3,000 marks, it is likely that you do have unrecognized trademark assets worth protecting.

Trademark rights may accrue merely from use of a mark in commerce. However, businesses should actively protect their marks by designation and by registration on federal and, if appropriate, international levels.

Marks, such as the Ford marks identified above, should be designated as marks when used in commerce to give notice to the public that the mark is considered proprietary. For marks which are not federally registered, owners should use the TM designation (see Travel WellTM above). This indicates that an owner regards the word as a mark, but that it is not yet federally registered. For marks which are federally registered, owners should use the ® designation (Mustang®), which is reserved by law for valid and subsisting federal registrations.

Generally, the most important and efficient way to protect a trademark is through federal registration. (15 U.S.C. § 1051 et seq.) The value of a federal registration is that it: (a) it provides the best form of notice to the world that you are using the mark, making adoption of the same mark by a third party less likely; (b) it precludes a subsequent user, even in a geographically remote area of the United States from your business, from adopting your mark; and, (c) it entitles you to certain additional remedies in the event of infringement of the mark by a third party.

Federal registrations are obtained through an application process with the U.S. Patent and Trademark Office (government filing fee, \$375). An application must include certain information including identification of the mark itself, a list of the goods or services for which the mark is used, and the date of first use in commerce. Applications are then reviewed by the USPTO and, if found to be distinctive and not confusingly similar to prior marks, published to allow the general public to object. If no opposition is filed, a registration is issued. Registrations remain in force for ten years (subject to proof after five years of continued use) and may be renewed repeatedly.

Within the past ten years, the federal government has also instituted a program allowing the reservation of marks on an intent-to-use in future basis. This program gives businesses the opportunity to secure marks for use even prior to actual use.

Finally, it is important to adopt a reasonable trademark clearance program. That is, in advance of investing thousands of dollars in printing packaging and marketing a new product or service or even a marketing campaign, companies should take reasonable steps to investigate the availability of a mark for exclusive use. Such steps may include a search of the federal trademark registration database (www.uspto.gov), procurement of a professional search report, a search of the internet, a search of relevant trade journals, or, optimally, a combination of these efforts. Professional search reports, though not perfect, provide the widest range of information including both identical and similar federal and state and even common law registrations, along with domain names and certain other uses.

Trademarks, when properly cleared and protected can be a business' most valuable asset.

COPYRIGHTS. Although copyrights are commonly associated with music (e.g., Recording Industry of America./Napster), any original work of authorship in any tangible medium is automatically protected by international copyright law. Copyright law therefore protects things like computer software, music, film, art, photographs, and even more mundane works like deposition transcripts and even this article. For a typical business, copyright law is relevant to things like marketing brochures, policies and procedures, license agreements, and business plans.

A critical limitation on copyright law is that it only protects the particular expression and not the general idea. For instance, every painter tries his or her hand at a bowl of fruit. Each is a particular expression (entitled to protection) of a basic idea (not entitled to protection).

The extent of protection afforded depends upon the extent of the originality of the expression as compared with similar prior works. Therefore, a copyright on a telephone directory, while available to preclude mere copying, would not preclude others from compiling a very similar directory. By contrast, a piece of music is entitled to broader protection against anything "substantially similar," which would preclude even imitation of a portion of the work.

Under the Berne Convention (c. 1886), copyrights are automatically granted international protection in more than 130 countries. The Berne Convention ensures that formal registration and other procedural requirements for protection are removed, thereby fostering creativity by reducing the costs of protecting original works.

While the Berne Convention does ensure that copyrights are protected, it remains important for businesses to seriously consider registration of copyrights. Registration in the United States affords the following additional benefits: (a) application for registration is required prior to initiating any suit to enforce a copyright in the United States; (b) a registration provides evidence that the work at issue is in fact of sufficient originality to be entitled to copyright protection (often an issue in the business context); and, importantly, (c) if a work is registered prior to the time that a third party first infringes the work, then the owner is entitled to certain additional remedies including statutory damages as well as, potentially, attorneys' fees. For these reasons, businesses should have a copyright program in place.

Copyrights are easily registered in the United States by filing an application with the Library of Congress (government filing fee, \$30). An application must include a copy of the work, identification of the author, date of creation, and indication of the type of work.

Because copyright applications are filed with the government, they are generally available to the public. As a result, it is common for businesses only to seek copyright protection on works that are in public use (marketing brochures/license applications) or works that are very likely to be copied (computer software). It is also possible, however, to obtain copyright registrations as to confidential materials without making them available to the public. Because copyright protection protects only the expression and not the idea, it is important to consider confidential filing for non-public materials such as policies and procedures and business plans. If these are filed publically, then a competitor could capture the key ideas from such documents, change the particular expression, and avoid any liability for imitation.

Regardless whether you choose to seek registration, it is important to consider marking each work with a copyright legend, including the well known ©. The © designation can and should be applied to works regardless of registration and should also include the year of creation as well as the name of the owner claiming rights. For this article for instance, an appropriate legend would be: Copyright © 2005 Sheppard Mullin Richter & Hampton LLP. The use of such a legend provides evidence of notice to third parties of your assertion of rights and can also serve as a natural deterrent against copying (much like the use of ™ or ®).

One important caution: An employee's works for an employer within the regular scope of his or her duties belongs to the business. However, a business can inadvertently

lose copyright ownership in the case of an employee on special assignment or in the case of work done by an independent contractor (any 1099 work).

In the former case (employee on special assignment), it is a good idea to document the new/additional job duties, to ensure that it is clear that the work is done within the scope of employment. In the latter case (1099 contract work), it is important to agree upfront in writing that the work is being done as a "work made for hire" with an assignment to the business of all right, title, and interest in the work. This point can be crucial, for instance, in the context of customized business software that is often created by non-employees, yet is intended for the exclusive benefit of your business. Absent such an agreement, the third party contractor can sell a copy of his or her or its work to your competition, sometimes at a fraction of your cost.

Proper understanding and use of the copyright laws ensures that the original works of your employees and contractors inure to the benefit of your business, and only your business.

PATENTS. Any "new and useful process, machine, manufacture, or composition of matter" or any improvement thereof is entitled to patent protection under federal law. (15 U.S.C. § 101 et seq.) Patents issued under this section are referred to as "utility" patents. The federal government has issued nearly 7 million utility patents in its history; notably, more than 2 million of these were issued within the last 20 years and are still in force.

Patent protection is not available if there is prior invention or third party description of the invention sufficiently prior to filing of the application.

A patent application must be filed within one year of sale or public use of the invention in this or any foreign country. If this deadline passes, then patent protection is unavailable. As a result, in the event that your business has created a new process, machine, or other invention, it is important to seek professional advice promptly.

Utility patents are difficult to draft and require professional attention in almost all cases. Because a patent ultimately is only as good as the language found in its particular claims, it is important to give due care to the application process. Because of this complexity, patent applications are expensive and can run anywhere from \$5 thousand dollars to \$25 thousand dollars in a normal case.

A patent theoretically gives its owner the right for 20 years to exclude others from "making, using, offering for sale, or selling" the invention in the United States. The "theoretical" aspect is that enforcement of the patent is left to the owner through litigation in federal court. Patent litigation is one of the fastest growing and most expensive types of litigation. In addition, such litigation is inherently uncertain in that it is as common for such proceedings to end by invalidation of the patent as by a verdict of infringement against the defendant.

In 1899, the Commissioner of the U.S. Patent Office, Charles Duell, famously quipped that: "Everything that can be invented has been invented." Although this quote is frequently used as an indictment of the former Commissioner's imagination, he often has the last laugh in prolonged litigation where previously obscure prior inventions invalidate existing patents.

It should be noted that patents are also available for ornamental designs (15 U.S.C. §171). Design patents are a completely different species of patent. A design patent is nearly the opposite of its utilitarian sibling, in that it is solely intended to protect non-functional ornamental designs. For example, a design patent could be obtained for a particular exterior shape of an automobile, a floor lamp, or an orange juice bottle.

These patents are much less expensive to prosecute and much more easily obtained, but they expire after only 14 years. The scope of protection is narrow - the test for infringement is whether a consumer seeking the protected product might mistakenly buy the alleged infringing product. But, because design patents are readily available, they are useful to prevent competitors from copying new product designs.

For most businesses, a basic understanding of patent law is at least as important, if not more important, from a risk management perspective. Patent law subjects not only the manufacturer, but also any distributor or even user of the infringing article to liability, regardless of participation in design or knowledge of the existence of the patent.

For this reason, it is important to review contracts with vendors and to obtain reasonable assurances that key products used or distributed by your business are not subject to claims of infringement. You can ignore the paper clips, but pay attention to large items such as machinery as well as any items that you import for distribution within the United States. Foreign manufacturers are known to sell consumer articles into the United States without regard to patent infringement issues. Unfortunately, if your business

buys and distributes these products (or even uses the products on a large scale), it is likely that the patent owner will look to you, and not necessarily the foreign manufacturer, for satisfaction.

Utility and design patents are in essence government monopolies available to business under the proper circumstance. Take care not to miss important opportunities to secure such a monopoly.

Businesses can extract value from trade secrets, trademarks, copyrights, and patents they develop not only by using them internally, but also by licensing others to do so. A future article will address licensing opportunities and practices.



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