Intellectual Property

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The Basics of an Intellectual Property Program

In today's resource-constrained and highly competitive environment, companies and senior executives have a keen interest in maximizing the value of their intellectual property, much of which is generated by their employees' daily activities.

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One way to help build a valuable intellectual property (IP) portfolio is to establish an IP Program. Properly designed, an IP Program can help identify, protect and optimize the value of a company's key assets.

Any company developing intellectual property—which could include rights over products, services, technology, business practices and creative content—should implement fundamental IP protections, such as ensuring that staff members and consultants have signed confidentiality and assignment of invention agreements, and educating employees (especially those in sales, marketing, engineering and legal) about the basics of trade secret, patent, copyright and other intellectual property protection.

A company should be keenly aware of issues as the company begins to look at ways to increase competitive advantages in the market or sell products in new regions of the world. Run well, an IP Program can help to focus the company on developing processes that can highlight competitive opportunities and issues for management, in addition to helping to build a valuable intellectual property portfolio.

Features of an Intellectual Property Program

No two programs are alike, just as no two companies have the same resources, volume of inventions and competitive environment. However, in setting up a program to identify company-owned IP, most companies and their counsel will want to consider the following questions:

What is Intellectual Property?

Inventions, Trade Secrets, Branding and Art

Intellectual Property is a general term used to describe a number of particular legal regimes that protect creations of the mind, such as inventions; literary and artistic works; and symbols, names and images used in commerce. More specifically, the term is used to refer to rights that allow creators, or owners, of patents, trade secrets, trademarks or copyrighted works to benefit from their work or investment in a creation:

- A patent provides exclusive rights for an invention—a product or process that provides a new way of doing something. A patented invention cannot be commercially made, used, distributed or sold without the patent owner's consent. As with other property rights, patent owners may also sell or license their patent rights to someone else. Once a patent expires, protection ends and the invention is then available for commercial exploitation by others.
- A trade secret is information not generally known or ascertainable by the public that the owner takes reasonable efforts to keep secret in order to derive economic value from such secrecy. Such information can include a formula, pattern, compilation, program, device, method, technique or process.
- A trademark is a distinctive word (or words), logo, sign or even a smell that identifies certain goods or services produced or provided by an individual or a company. The aim of the trademark system is to help consumers identify the source of a good or service. A trademark can be a word, name, symbol, design, color, sound, smell or a combination of those elements.
- A copyright grants protection for creative expression fixed in tangible media, generally referred to as "works." Copyrighted works typically include literary works (such as novels, poems and plays), films, music, artistic works (e.g., drawings, paintings, photographs and sculptures) and architectural design. Copyrights can also be used to protect software code, user interfaces and web designs.

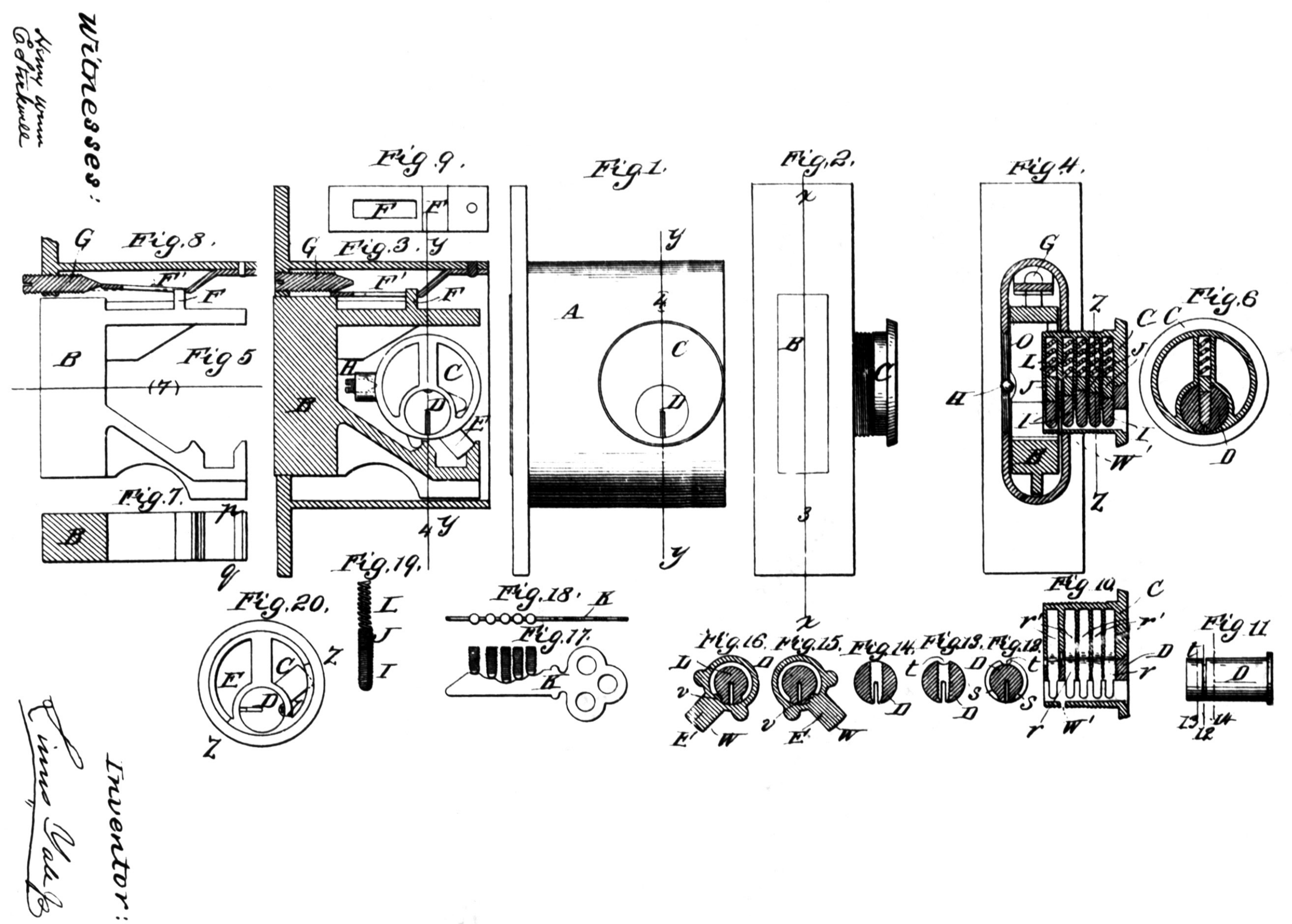
What is the Difference between Trade Secrets and Patents?

Conceptually, trade secrets and patents reside at opposite ends of the disclosure spectrum. A trade secret by nature protects information that is withheld from public knowledge, whereas a patent provides exclusive rights in exchange for public disclosure of information. There are two general instances where trade secrets are used:

- Trade secrets may be used to protect inventions or manufacturing processes that are not patentable.
- Trade secrets may be used to protect otherwise patentable inventions, where business strategy factors weigh against public disclosure of the invention.

For this second situation, the following factors should be considered in weighing whether to utilize trade secret or patent protections:

- Trade secrets involve no registration costs; unlike patents which typically cost $15,000 to $20,000 in fees and legal costs to procure. However, there may be other, less tangible costs associated with maintaining a trade secret.
- Trade secrets have immediate effect; unlike patents, which have an average pendency of two to three years within the patent office before issuance of a patent.
- Trade secret protection does not require compliance with formalities such as disclosure of the information to a government authority.
- Trade secret protection is not limited in time in the same way patents are limited (e.g., 17- or 20-year periods, depending on the filing date). Trade secrets may continue indefinitely as long as the secret is not revealed to the public.
- Unlike patents, trade secret protection does not prevent others from independently developing and using the subject of the trade secret. Furthermore, if the secret is embodied in a product, others may be able to reverse engineer it and discover the secret.
- A trade secret is typically more difficult to enforce than a patent.
- Finally, where multiple companies are developing the same technology, then there is a potential that one company's trade secret may be patented by another which has developed the relevant information by legitimate means.



Patents and "Patent Prosecution"

Patent "prosecution" has nothing to do with litigation, but refers to the process of obtaining and maintaining a patent. The prosecution process can be roughly split into two phases: pre-grant prosecution, which involves negotiation with a patent office for the grant of a patent, and post-grant proceedings, which involves changing or challenging granted patent rights. Pre-grant prosecution involves two main aspects:

- Preparation and Filing of an Application: The first step in securing a patent is to prepare and file a patent application. Applications generally contain the title of the invention, the background and a description of the invention and various "claims" that determine the extent of protection to be granted by the patent. Applications must be written in clear language and provide enough detail that an individual with an average understanding of the field could use or reproduce the invention.
- Examination: Examination is the process by which the patent office determines whether a patent application meets the requirements for granting a patent. The process involves considering whether the invention is novel and sufficiently inventive, whether the subject matter of the invention is excluded and whether the application complies with formalities of patent law. Typically this is an iterative process, involving argument and negotiation by the patent attorney handing the matter.

Once a patent has been granted, there is the potential for additional proceedings before the patent office that seek to either strengthen or challenge rights granted by a patent. Patent holders have two potential options for strengthening an existing patent: supplemental examination and patent reissue. Prospective patent challengers have four options to challenge the validity of granted patents at the Patent Office: post-grant review, *inter partes* review, *ex parte* reexamination and interference or derivation proceedings. Patents can also be challenged in court during litigation. Patents typically provide the most valuable form of intellectual property. Once granted, a patent can be used as a legal tool to gain market share and create barriers to entry. Patents can also be used to create pricing power for unique products. Additionally, patents are assets that can be sold, licensed to create an income stream or cross-licensed to gain access to other markets.

Why Do Copyrights and Trademarks Matter?

While copyrights and trademarks do not protect ideas, as trade secrets and patents can, they nonetheless provide protections for valuable intellectual property assets and provide companies with additional tools to differentiate themselves and succeed in the marketplace.

For any company involved in the creation of creative content, copyright will be the cornerstone of a successful IP Program. However, copyright is important even for companies that do not view themselves as creative content creators. First, incorporating copyright management into an IP Program can help the average company to protect valuable assets such as company websites and software source code. Second, proper copyright management can also ensure that the company is operating with the necessary licenses for any third-party owned works and that the company is shielded from costly copyright infringement litigation.

As discussed above, trademark protection ensures that the owners of marks have the exclusive right to use them to identify goods or services or to authorize others to use them in return for payment. While a brand with strong consumer recognition has value in and of itself, incorporating trademark management within an IP Program can also benefit a company by providing another means to defend itself from competitors, counterfeiters and the like. For example, a well-maintained trademark portfolio can help a company thwart threats from cybersquatters and can hinder the efforts of unfair competitors, such as counterfeiters, who use similar marks to market inferior or different products or services.

What Is the Role of the CEO and CFO (and Why Should They Care)?

Top-level management is responsible for the overarching and long-term direction of a company, such as the choice of future trajectories and the management of corporate reputation. Given that intellectual property touches many aspects of a company, corporate management is best situated to provide the organization with clear goals and rules for the use of intellectual property and to assess how these tools can be leveraged to capitalize on future market opportunities. Furthermore, top-level management has a fiduciary responsibility to extract maximum value for the company's intellectual property assets via sale, license, cost savings, royalty recovery, intellectual property protection and enforcement. For example, management can begin to evaluate how much more value the company can unlock from its intellectual property assets by asking:

- Is the company collecting the maximum licensing revenues per the licensing contract?
- Is the company managing the costs of acquiring and maintaining IP assets efficiently?
- Is the company increasing its return on intellectual property?
- Is the company adequately protecting its intellectual property from infringement and misappropriation by others?
- Is the company maximizing its potential valuation by having an IP Program that captures and maintains exclusivity for all intellectual capital generated by its employees?

Once top-level management has crafted the direction and policies of an IP Program, intellectual property can become a significant tool that can be leveraged to generate revenue, capture market share, facilitate capital raise and enhance valuation.

Why Consider Non-U.S. Patents or Copyrights?

Patents and trademarks are territorial and must be registered in each country where protection is sought. A U.S. patent or trademark does not afford protection in another country. As a result of international copyright treaties and conventions, many countries do not require registration of a U.S. copyright in order to enjoy copyright protection. However, the United States does not have such copyright relationships with every country.

Thus, if a company is thinking of expanding internationally, it must also consider how it will protect its intellectual property in each country in which it envisions doing business. Failure to consider intellectual property issues before expanding into a new market can result in costly barriers to entry that may require licenses or potentially serve as a complete barrier to entry for a given product or technology.

Even companies that do not intend to expand overseas should consider filing for intellectual property rights in a foreign country as a defensive measure to curtail competitors and counterfeiters. Since one of the major threats to U.S. companies overseas is piracy and counterfeiting, it may be prudent for at-risk companies to invest in foreign rights that will help attack the problem at the source rather than waiting for problems to reach U.S. shores. Finally, foreign intellectual property rights can also serve as a useful bargaining chip in cross-license negotiations with competitors.

What Is the Value of My IP?

The value of a company's intellectual property is situation-specific and depends on a number of factors. However, in a general sense, the value of an intellectual property asset is based on its ability to exclude competitors from a particular market and the ability to control the use of the intellectual property asset. For an intellectual property asset to have a quantifiable value, it should both generate a measurable amount of economic benefit to its owner/user and enhance the value of other assets with which it is associated. It is important to note that value can be derived from an intellectual property asset through three main ways:

- Direct use of the asset
- Sale or licensing of the asset
- Mere ownership of the asset, without use, may provide value in that it can:
  - Minimize the negotiating power of customers
  - Offset supplier power
  - Mitigate rivalry
  - Raise barriers to entry by competitors
  - Reduce the threat of substitutes

There are multiple ways in which to value intellectual property. Selection of the most appropriate method will depend on several factors, including the type of intellectual property being valued, the purpose of the valuation and the type of data available for use in the valuation. Generally, there are three basic methods used for valuing intellectual property: cost, market and income approaches:

- Cost-Based Method: The value of an asset is based on calculating the cost of developing a similar (or exact) asset either internally or externally.
- Market-Based Method: The value of an asset is based on comparison with the actual price paid for a similar asset under comparable circumstances.

- Income-Based Method: The value of an asset is based on the amount of income that the asset is expected to generate, adjusted to its present day value.

Who Should Run the IP Program?

Some companies rely entirely on outside legal counsel to manage their IP Programs. However, a successful program will benefit from close involvement by company personnel, including senior business and technical managers, who will tend to be more aware of strategic direction, product development plans, changing geographic markets for the company's products and competitors' technology.

For this purpose, many companies use an "IP committee," typically including one or more managers or officers in the R&D/engineering area, as well as in-house or outside IP counsel. In addition, many IP committees include product management or marketing staff to provide input on market trends, where a particular invention fits into the competitive landscape, when the applicable product will likely be marketed and other important topics. It can also be helpful to include a representative of the finance department to speak to the cost/benefit decisions.

Alternatively, some companies use a single IP Program "director," who is responsible for soliciting input from relevant managers with respect to legal, strategic, technological and competitive matters and for running the program. If a single director is used, his or her authority to approve patent prosecution expenses should be decided and clearly communicated.

How to Obtain Useful Information Efficiently

Periodic on-site education can be very useful to keep R&D staff informed about the kinds of inventions that will be valuable to the company. Many companies invite outside patent counsel to conduct "teach-ins" periodically for engineering staff to ensure all engineers understand why protecting inventions is critical, what kinds of ideas are patentable, what the company's patent strategy is and generally how a patent filing works. This can help the engineers to be much more effective at identifying truly valuable ideas and capturing those ideas on paper in a way that makes it easier for the patent committee/director to make a decision about protecting a new invention. With a greater understanding of how an idea will translate into a set of patent claims, engineers will also tend to write up their inventions in a way that saves attorney time and expense in preparing the eventual patent application. In addition, R&D staff should receive training about how to keep proper notebook records of their inventive activities, which can be critical to establish early invention dates and clarify inventorship.

Assuming the R&D staff has a basic understanding of the patent system, an invention disclosure form usually becomes the program's basic building block. These forms typically cover sufficient topics to permit the patent committee or patent director to make an informed decision about whether to pursue the invention, or what additional information is needed.

These forms vary by company, but they usually cover topics such as:

- What is the invention, simply stated?
- Which employees contributed to the inventive concept?
- Did any non-employees contribute?
- What problem is the invention designed to solve?
- What have been the prior approaches to this problem? What are their shortcomings, and why is this invention superior?
- Is the invention based on another technology, process or approach? What are the closest published/patented/publicly marketed inventions, processes or products of others that the inventor is aware of (i.e., "prior art")?
- What competitive advantage will this invention give the company and what value does the inventor see it having in the marketplace?
- Does the company have any other inventions/processes to which this invention is related?
- Does this invention improve on a product or technology previously developed by the company?
- Is there any chance that a third party might assert rights in the invention? Was the development work pursuant to a government contract?

In addition, the disclosure form can request information that helps the program manager and counsel to decide whether the invention should be maintained as a trade secret rather than patented as well as details relevant to any later patent prosecution—such as when and how the invention was first conceived, disclosed, documented and reduced to practice (such as through a prototype or test), and where the applicable laboratory notebook or other documentation is located.

What Should the Patent Committee or Director Consider?

The employee or committee charged with running the program will use the information in the disclosure forms to help assess each invention's likely value (both in the company's field and in other fields), whether it merits the time and expense commitment of applying for patent protection in the U.S. and in other countries, and whether the invention is best protected through the patent system or by other protections such as maintaining the invention as a trade secret. In addition, considering a new invention disclosure can trigger early consideration and discussion of strategic issues, such as whether a new idea or technology will be most effectively used in the company's products or licensed to others (and, if so, exclusively or non-exclusively?).

A number of considerations will factor into decisions about each invention, such as:

- The company's product/technology strategy
- Changes in the competitive environment
- The cost and time required for patent prosecution
- Any patentability issues such as the presence of arguable "prior art"
- The public disclosures eventually triggered by pursuing patent protection

Where an invention is deemed unworthy of patent protection for some reason, such as cost or the inability to preserve trade secret status, the patent team should also consult counsel about steps that could be taken to prevent a competitor from coincidentally pursuing patent protection on the same invention.

In summary, as long as it is tailored to an individual company's needs and corporate culture, a structured IP Program can be an important tool to capture and protect the value of employees' R&D activities, improve the company's competitive position, and help management refine product development strategies.

About Pillsbury

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