



102: Circling the Wagons: How Small Law Departments Can Protect & Maximize Corporate IP Assets

Mark K Beesley
General Counsel
Back to Basics Products, Inc.

Jordan A. LaVine
Counsel
Akin Gump Strauss Hauer & Feld LLP

Joan M. Lebow
General Counsel, Corporate Secretary
ibex Healthdata Systems, Inc.

Thomas R. Wilcox
Vice President, Legal and Human Resources
Strategic Management Group, Inc.

Faculty Biographies

Mark K Beesley

Mark K Beesley is general counsel and secretary of Back to Basics Products, Inc. Back to Basics is a Utah-based housewares company developing innovative products for the kitchen and home such as smoothie makers and blenders, coffee and hot drink makers, home water treatment devices, ice-cream and popcorn machines, juicers, and other food preparation equipment and tools.

Prior to joining Back to Basics, Mr. Beesley directed an emerging market investment fund in northern Europe where he oversaw investment in and development and sale of several high-growth companies. He also served as an advisor developing banking and finance laws in Bulgaria. Before moving to Europe, Mr. Beesley practiced commercial law in New York and clerked for the chief justice of the Utah Supreme Court.

Mr. Beesley is a member of the New York and Utah bars.

He is a graduate of Brigham Young University and Cornell Law School.

Jordan A. LaVine

Jordan A. LaVine is counsel with the Philadelphia office of Akin Gump Strauss Hauer & Feld LLP and is a member of the firm's intellectual property and technology practice groups. Mr. LaVine's practice focuses on trademark, copyright, and unfair competition counseling, prosecution, and litigation matters. He has handled numerous litigation matters involving trademarks, trade secrets, trade dress, product configuration, unfair competition, copyrights, and false advertising.

Prior to joining Akin Gump, Mr. LaVine was associated with Morgan Lewis & Bockius and Panitch Schwarze Jacobs & Nadel, P.C. of Philadelphia.

Mr. LaVine has authored numerous articles and lectured on the topic "Protecting Your Client's Intellectual Property on the Internet" at the Pennsylvania Bar Institute's annual seminar for business lawyers. Since 2001, he has presented a paper and spoken on prosecuting trademark applications in the United States Patent and Trademark Office at the annual American Law Institute/ABA course entitled "Trademarks, Copyrights and Unfair Competition for the General Practitioner and Corporate Counsel." Mr. LaVine was named one of "50 on the Fast Track" by *The Legal Intelligencer and Pennsylvania Law Weekly*, which featured 50 top attorneys in Pennsylvania under the age of 40. Mr. LaVine is an adjunct professor at the Villanova University School of Law, where he teaches the course Advanced Trademark Issues.

Mr. LaVine received his BA from Colgate University and his JD from the Villanova University School of Law, where he was a member of the *Villanova Law Review*.

Joan M. Lebow

Joan M. Lebow serves as general counsel of ibex Healthdata Systems, Inc., a company providing web based software applications to hospitals and physicians. Ms. Lebow provides intellectual property, trademark, software licensing, and sublicensing legal services. She manages employment issues, serves as corporate secretary, and handles all aspects of ongoing corporate growth and governance for the company.

Ms. Lebow started the office of general counsel of Illinois Masonic Medical Center. During her tenure, Ms. Lebow managed all trials and appeals, all insurance, and insurance subsidiaries consisting of a health maintenance organization, a Medicare select product, two preferred provider organizations and a preferred provider administrator. Ms. Lebow was among the first in the industry to seek mediated resolution of high exposure litigation. She managed the regulatory compliance of the Medical Center in the areas of government reimbursement, clinical operations, and business relationships. Prior to that position, Ms. Lebow served as assistant general counsel of Northwestern Memorial Hospital. She engaged in a broad healthcare and corporate practice. She represented Northwestern in state and federal administrative hearings, handled ERISA and employee benefit issues, medical staff, and licensed professional regulatory affairs. She began her career in private practice as an associate with the firms of Lord, Bissell & Brook and Sweeney & Riman, Ltd. Ms. Lebow handled direct litigation, insurance coverage disputes, and corporate matters.

Ms. Lebow serves on various committees of the Illinois Association of Hospital Attorneys and is a past president and current board member of ACC's Chicago Chapter. She has served on the board of directors of The Family Institute, is an active fundraiser for The Bottomless Closet, and is a member of the steering committee of the Senior Business Women's Forum.

Ms. Lebow received her bachelors from Pitzer College, The Claremont Colleges, in Claremont California, and her JD from the Illinois Institute of Technology Chicago-Kent College of Law.

Thomas R. Wilcox

*Vice President, Legal and Human Resources, General Counsel & Secretary
Strategic Management Group, Inc.*

IDENTIFYING WHAT YOU HAVE AND PROTECTING IT

The Various Types of Intellectual Property and How You Can Maximize Its Protection and Enforceability¹

Jordan LaVine
Akin Gump Strauss Hauer & Feld LLP
One Commerce Square
2005 Market Street, Suite 2200
Philadelphia, PA 19103
215.965.1247
jlavine@akingump.com

I. BACKGROUND AND BASICS

A. Inventions

1. Patents

Patents protect any new, useful and nonobvious process, machine, article of manufacture, or composition of matter. To obtain a patent, an inventor must provide a full disclosure of the invention, trading such full disclosure for the right to exclude others from making, using or selling the subject matter claimed in the patent, starting from the date a patent is issued for a period of 20 years calculated from the application filing date. Prior to June 1995, the statutory period of protection was 17 years. The period of patent protection was increased to 20 years to avoid the issue of "submarine" patents (*i.e.* patents that issue after pending many years while an industry matures under the assumption that no basic patent will issue). For patents issuing after 2000, the period of patent protection will be at least the aforementioned 20 year term but may be more depending upon delays encountered in patenting process.

2. Design Patents

A person may also obtain a patent upon a new, original and ornamental design of utilitarian objects or articles of manufacture. 35 U.S.C. §§171-173. These patents are called "design patents." Design patents are granted for a period of 14 years from the date of issuance.

¹ I would like to thank and express my gratitude to Ronald Panitch, co-chair of the Akin Gump Intellectual Property Practice Group, who prepared an earlier version of this paper and assisted with the preparation of this updated version.

B. Trademarks

A trademark (used in connection with a product) or a service mark (used in connection with a service) is any word, symbol, or device used by a manufacturer or merchant to distinguish its products and services from the products and services of others. There are common law trademarks and state-registered trademarks, which are governed by the laws of particular states, as well as federally-registered trademarks, which are governed by federal law. Trademarks are valid for as long as the mark is used in connection with the product or service.

C. Works of Authorship/Copyright

Copyrights extend protection to specified works of authorship, including books, songs, visual arts, sculpture, architectural drawings, photographs and computer programs, among other types of works. A copyright exists as soon as an original work of authorship is fixed in any tangible medium of expression.

II. SUMMARY OF DIFFERENCES

A. Federal/State/Common Law

Patentability of inventions and enforcement of patents against infringers are governed solely by federal law, hence any state law regarding these patent issues would be preempted. However, state law, usually common law, has applicability concerning issues of patent ownership, transfers of patent rights and patent licensing.

Trademarks are registrable and protectable under state law and under the Lanham Act, 15 U.S.C. §1051 et seq. That Act provides for the method of registration on both the Principal and Supplemental Registers and the relevant statutory laws. It also addresses the methods of enforcing trademark rights and maintaining them after registration through use and renewal. State trademark law is not preempted by federal law unless a conflict exists with federal patent and/or copyright laws and then such federal law takes precedence. Common law trademark rights arise from the adoption and use of marks which are inherently distinctive, or if the mark is not inherently distinctive, it is protectable once it has acquired secondary meaning.

Prior to January 1, 1978, both federal and common law copyright co-existed. Common law copyright provided protection for unpublished works, whereas the federal copyright law protected works that had been published. After January 1, 1978, common law copyright protection ceased to exist and all copyrightable subject matter, whether published or unpublished, became subject to protection only under federal law pursuant to the Copyright Act of 1976.

B. Limited Term/Not Limited Term

All federal patent rights are limited in duration according to statute, while rights in a trademark continue for as long as the mark is used in commerce. A patent grants to the patentee and his assigns the right to exclude or prevent others from making, using or selling the patented invention which has a nonrenewable and generally nonextendable term of 20 years, which may be extended if delays in the patenting process occur.

A design patent allows its owner to preclude others from making, using or selling products incorporating the patented design for the life of the patent. Since a design patent protects the appearance and not the function of an article of manufacture, the scope of protection afforded by design patents is less than that afforded to utility patents.

Aspects of an inventive design can be protected both by a design patent and, if it acquires secondary meaning and is non-functional, as a trademark. The right to preclude use of non-functional features by others on trademark principles is not limited to the term of patent protection. Trademark rights continue beyond the expiration of a design patent. When the patent monopoly ends, trademark rights cannot extend it, but trademark rights can piggyback on design patent rights.

Although trademarks may be registered under federal or state law, protection of trademarks comes from their use in identifying goods and services to the public and not from the registration. Federal trademark registrations presently have a term of 10 years and are renewable for any number of 10 year terms, as long as the mark is still in use. Registration is not mandatory.

A registered copyright generally has a term of 95 years for a business, and life of the author plus 70 years for an individual.

C. Useful Articles/Not Useful Articles

Patents are granted for inventions that are new and nonobvious. Patents require an element of "novelty" and an improvement beyond the prior art which is either already available to the public, or that which may be readily discerned from materials available to the public. A trademark gives the owner the right to prevent use of its mark by others when that use is likely to cause confusion or mistake, or to deceive. Unlike patents, trademark rights are acquired merely by use in commerce. Words or slogans which function as a trademark to identify and distinguish goods or services are not patentable.

The shape of a product is not capable of trademark protection if that shape is primarily functional. Functional shapes may be covered by utility patents. The reasoning is that if a shape is functional, then everyone has the right to use the configuration for its utilitarian purpose, limited only to any exclusive right which may exist under the patent laws for the duration of the patent. The courts treat patents as evidence of functionality of a configuration. A

product shape which is covered by a patent becomes publicly available at the expiration of the patent, except to the extent there are non-functional aspects which are or become distinctive and are therefore protectable under trademark principles.

Design patents protect ornamental features and configurations and are granted for new and non-obvious ornamental features in connection with an article of manufacture. For a limited period of time, a design patent grants to the holder the right to exclude others from making, using, offering for sale, or selling the patented design within the United States or importing the patented design into the United States. Upon expiration of the design patent, the owner loses this exclusivity. However, protection may exist under both design patent and trademark law where the configuration of a container or article serves to identify and distinguish the source of the article.

The laws of trademark and copyright may overlap in the area of literary or artistic works or when protection is given to different aspects of a single item. A feature claimed as a trademark, such as a character, or as trade dress, such as the pattern on a handbag, does not have to be registered to be protected either as a trademark or as a copyrighted work. Copyright law gives protection to the tangible expression of the particular work, the expression of authorship. Trademark law protects the source identifying aspect of the thing. Where there is an overlap between these areas, expiration of a copyright will not bar a claim for infringement of trademark or trade dress rights.

D. Novelty/Originality

To be patentable, an invention must be new or "novel" at the time it was invented. The conditions for determining novelty are set forth in 35 U.S.C. §102. In essence, an invention is novel unless it has been done before exactly. If the invention has been done before and is not novel, it is said to have been "anticipated." Section 102(a) bars a patent on an invention "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." (Emphasis added). A prior patent or publication anywhere or prior use, knowledge, or invention in this country will negate novelty and defeat patentability.

Originality for copyright protection does not require novelty, but only requires that the work be created by a person's own independent efforts, *i.e.*, not copied. A work may be original if it results from independent efforts even if, independently and unknown to the author of such work, a similar or even identical work has been previously created by another person.

III. TRADEMARKS

A. Common Law Protection

1. What is Subject to Protection: Trademarks, Service Marks, Trade Dress, Trade Names, Color, Smell and Product Configurations

A "trademark" is any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify and distinguish its goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown. 15 U.S.C. §1127 (1993). For example, KODAK® is a trademark used to distinguish the products of the Eastman Kodak Company from those of its competitors. Although a trademark is typically a word or a short phrase used to distinguish a product, the term "trademark" also includes symbols, numbers, slogans, and the appearance of the product's container, or the product itself. For example, the number 7-ELEVEN® is a trademark for a convenience store and 66® is a trademark for petroleum products. The slogan HAIR COLOR SO NATURAL ONLY HER HAIRDRESSER KNOWS FOR SURE® is a trademark for hair tinting preparations, and the shape of a COCA-COLA® bottle is a trademark for a particular soft drink.

A "service mark" is "a mark used in the sale or advertising of services to identify the services of one person and distinguish them from the services of another." 15 U.S.C. §1127. McDONALD'S® is a well-known service mark identifying a distinctive restaurant service. Like trademarks, service marks are not limited to words. Symbols, slogans, sounds, numbers and shapes may function as service marks if they can be used to distinguish services of one person from those of another.

The term "trade name" means the name used by companies, firms, persons and similar enterprises to describe their organizations, as distinguished from the goods and/or services sold by that organization. 15 U.S.C. §1127. For example, "General Motors" is the trade name of the corporation which sells automobiles under a variety of trademarks, such as CHEVROLET®, GMC®, and CUTLASS®.

A trade name may also be used as a trademark or service mark because it is used to describe the goods or services of the producing company. For example, products of General Electric Company are typically called "GENERAL ELECTRIC" appliances and the company is referred to as "General Electric." The term therefore functions both as a trade name and a trademark. However, some trade names are not used on goods or in connection with services and are therefore neither trademarks nor service marks. Trade marks and trade names are treated separately under the law.

In many instances, the shape, configuration, distinctive feature, or color of a product or its container, becomes sufficiently identified with a particular producer of that product that such features are themselves subject to protection against their use by others. For example,

the shape of Ibanez guitar heads was recognized as having acquired secondary meaning sufficient to identify the manufacturer of the guitar and therefore was registrable. Yamaha International v. Hoshino Gakhi co., 231 U.S.P.Q. 926, 935 (T.T.A.B. 1986), aff'd, 840 F.2d 1572, 6 U.S.P.Q.2d 1001 (Fed. Cir. 1988).

Several Circuits, acknowledging that the protection of product shape or configuration as "trade dress" may conflict with federal patent policy, and acknowledging that a product's shape is not usually seen as an indicator of source, have held that plaintiffs claiming trade dress rights in a product's configuration have a special burden in establishing that the product configuration is distinctive, *i.e.* that it operates as an indicator of source. See 1 J.T. McCarthy, Trademarks and Unfair Competition, § 8:5 at 8-13, and cases cited therein; Duraco Prods. v. Joy Plastic Enterprises, 40 F.3d 1431, 1447 (3d Cir. 1994) (more rigorous standard for inherent distinctiveness in product configurations, here plastic garden planters); Thomas & Betts Corp. v. Panduit Corp., 65 F.3d 654 (7th Cir. 1995), cert. denied, 116 S. Ct. 1044 (1996) ("The defendant. . . may copy plaintiff's goods slavishly down to the minutest detail: but he may not represent himself as the plaintiff in their sale.") (citing Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 157 (1989)).

The background display of a mark may be registered without any showing of secondary meaning if it is by its very nature distinctive or unique enough to create a commercial impression to indicate its source separate and apart from the remainder of the mark. In contrast, if the background design is not inherently distinctive, *i.e.* if it is mere background material that does not inherently create a separate commercial impression as a trademark, it may be registered as a trademark only upon proof of secondary meaning. In re Hagggar Company, 217 U.S.P.Q. 81 (T.T.A.B. 1982). Common basic shapes such as circles, ovals, triangles, diamonds, stars, and other geometric designs, when used for display of word or letter marks, are not regarded as an indicia of the origin of the goods to which they are applied in the absence of a showing of secondary meaning in the design alone.

Particular shapes and colors of drug capsules may indicate the source of a particular drug, thus serving the traditional purposes of a trademark. See, S K & F Co. v. Premo Pharmaceutical Laboratories, Inc., 625 F.2d 1055, 1064, 206 U.S.P.Q. 964, 973 (3d Cir. 1980); Merck & Co. v. Par Pharmaceutical, Inc., 227 U.S.P.Q. 489, 491 (3d Cir. 1985).

In 1992, the U.S. Supreme Court, in Two Pesos, Inc. v. Taco Cabana, Inc., 502 U.S. 763 (1992), decided a case involving an overall trade dress consisting of the decor of a Mexican restaurant. The Court resolved a split in the Circuits by holding that unregistered, but inherently distinctive, trade dress can be protected without a showing of "secondary meaning," since trade dress should not be analyzed differently from any other trademark as defined by the trademark statute, *i.e.* "any word, name, symbol or device or any combination thereof" used to distinguish one's goods from those of others.

In 1995, the United States Supreme Court held that a single color can also serve as trademark when the color satisfies ordinary fundamental trademark requirements. In Qualitex Co. v. Jacobson Products Co., Inc., 115 S. Ct. 1300, 131 L.Ed.2d 248, 34 U.S.P.Q.2d 1161

(1995), the Court held that green-gold pads for dry cleaning presses were worthy of trademark protection because secondary meaning had been established in the green-gold pads. Essentially, the Supreme Court adopted the arguments set forth by the Court of Appeals for the Federal Circuit in In re Owens-Corning Fiberglass Corp., 774 F.2d 1116, 227 U.S.P.Q. 417 (Fed. Cir. 1985). In Owens-Corning, the Federal Circuit held that the color pink for home insulation can be a registered trademark for insulation. The court determined that there was no need for the color pink to be available to all competitors in the insulation industry and that because of the applicant's intensive advertising campaign, featuring the "Pink Panther" cartoon character, the color pink had become associated in the public mind with Owens-Corning's insulation and not with insulation generally. Likewise, in Qualitex, the Supreme Court held that there was no competitive need for green-gold dry cleaning presses, and that the public associated the green-gold pads with the party seeking trademark protection for the color.

In contrast, an attempt to register the color blue for nitrogen-based fertilizer failed, because blue was found to be a competitive need in the fertilizer industry to show when certain blends are sufficiently mixed. In addition, blue is associated with nitrogen-based fertilizers in general by the consuming public. Nor-Am Chemical v. O. M. Scott & Sons co., 4 U.S.P.Q.2d 1316, 1320 (E.D. Pa. 1987). Likewise, the Federal Circuit, in Brunswick Corp. v. British Seagull Ltd., 35 F.3d 1527, 32 U.S.P.Q.2d 1220 (Fed. Cir. 1994), held that Brunswick could not register the color black for outboard boat engines, even though Brunswick had manufactured black outboard engines since 1964. Consistent with the rationale set forth in both Owens-Corning and Qualitex, the Federal Circuit held that black was not registrable because there was a competitive need for black based on the color's compatibility with a wide variety of boat motors and its ability to make objects appear smaller.

In 2001, the Supreme Court held that functional features do not receive trade dress protection under federal law. Traffix Devices, Inc. v. Marketing Displays, Inc., 532 U.S. 23, 58 U.S.P.Q.2d 1001 (2001). Specifically, the Traffix case concerned an inventor's expired utility patent for a mechanism with a dual spring design that kept temporary road signs upright despite adverse wind conditions. Id. at 25. When a competitor copied the dual spring design, the inventor brought an action for, *inter alia*, trade dress infringement due to the similarity in appearance between the visible spring mechanisms. Because the dual spring design was the subject of an expired utility patent, there was a heavy presumption that it was functional and provided a "unique and useful mechanism to resist the force of the wind." Id. at 26-7. The Court reiterated its previous reasoning in Two Pesos that functional features do not receive trade dress protection and added that "[w]hether a utility patent has expired or there has been no utility patent at all, a product design which has a particular appearance may be functional because it is 'essential to the use or purpose of the article' or 'affects the cost or quality of the article.'" Id. at 35 (citation omitted).

The basis for protecting shapes and colors is the public association of that shape or color with a particular producer of a product or service. Not all shapes and colors can give rise to trademark protection, precluding their use by others, even though they may have acquired secondary meaning. Some shapes, product configurations, and colors are dictated by the

function of the product itself. To prevent their use by others would preclude others from producing the product, which courts are unwilling to do.

The U.S. Patent and Trademark Office, which is part of the Commerce Department, does not permit registrations of scents or fragrances of products which are primarily sold for their scent, such as scented household products, perfumes, and colognes. However, in In re Clark, 17 U.S.P.Q.2d 1238 (T.T.A.B. 1990), the Trademark Trial and Appeal Board reversed the refusal of registration of a mark which consisted of "a high impact, fresh, floral fragrance reminiscent of Plumeria blossoms" for "sewing thread and embroidery yarn." The amount of evidence required to establish that a fragrance can serve as a mark is substantial.

In 2000, the United States Supreme Court in Wal-Mart Stores, Inc. v. Samara Brothers, Inc., 529 U.S. 205, 54 U.S.P.Q.2d 1065 (2000), in a case involving a dispute over "knock off" clothing designs, distinguished two basic types of trade dress, "product packaging" and "product design", and held that unregistered "product design" trade dress can never be inherently distinctive. "Product design" trade dress, like color, can only become distinctive if it develops secondary meaning, so that in the minds of the public, the main significance of the product design is to identify the source of the product rather than the product itself. Where it is unclear if trade dress is "product packaging" or "product design", the Court recommended that lower courts err on the side of caution and classify ambiguous trade dress as "product design", thus requiring secondary meaning.

In a recent application of the Samara Bros. principles, the Second Circuit held, in Abercrombie & Fitch Stores, Inc. v. American Eagle Outfitters, Inc., 280 F.3d 619 (6th Cir. 2002), that Abercrombie's clothing designs and in-store advertising displays were not protectable as trade dress because they were functional. The court also held that although Abercrombie's catalog was non-functional and had secondary meaning (i.e., was distinctive), there was no likelihood of confusion with the catalog of defendant American Eagle Outfitters.

B. Federal Trademark Protection

1. What May Be Federally Registered

Under Section 45 of the Lanham Act, a "'mark' is any trademark, service mark, collective mark or certification mark entitled to registration under this chapter whether registered or not." 15 U.S.C. §1127 (1993). Smithkline Beckman Corp. v. Pennex Products Company, Inc., 605 F.Supp. 746, 749, 220 U.S.P.Q. 963, 965 (E.D. Pa. 1985).

A certification mark represents regional or other origin, material, mode of manufacture, quality, accuracy or other characteristics of the goods, such as whether work on the goods was performed by union laborers. 15 U.S.C. §1127. An example of a certification mark is a background design of two interlocking gears used to designate someone who has passed a mechanic's course at the National Institute for Automotive Excellence. This will represent to a customer that this mechanic is a certified general mechanic from that school. In re National Institute for Automotive Service Excellence, 218 U.S.P.Q. 744 (T.T.A.B. 1983).

A collective mark, used to designate members of a cooperative association, or other collective group, or to indicate membership in a union, association, or other organization, is also within the scope of federal registration. These marks do not refer to commercial origin. Their sole purpose is to indicate membership in a particular organization. American Speech-Language-Hearing Association v. National Hearing Aid Society, 224 U.S.P.Q. 798, 806 (T.T.A.B. 1984).

An example of a collective mark is the emblem of the American Society for Aesthetic Plastic Surgery, Inc., which is a six-sided figure, enclosing a Queen Nefertiti head, with the Society's name printed inside the boundary of the emblem. Aloe Cream Laboratories v. American Society for Aesthetic Plastic Surgery, Inc., 192 U.S.P.Q. 170 (T.T.A.B. 1976).

2. Effect of Federal Registration

Because trademarks represent the goodwill and reputation of the owner, they may play a significant role in consumer choices. When a competing entity attempts to use the same mark, the owner of the mark has a legitimate concern that someone is "cashing-in" on its success. In addition, the public relies on trademarks to know what it is they are buying, the quality of the product, and its source.

To enforce one's trademark rights, the party must have, as a basis of enforcement, a mark entitled to registration, whether or not it has been registered. To be entitled to registration and hence enforcement, the mark must have been used "in commerce" under federal law. The basis of enforcing the right does not derive from registration, but from the use and character of the mark.

In a trademark infringement suit, the owner of a federal registration enjoys the benefit of certain prima facie evidentiary presumptions. The registration is evidence of inherent distinctiveness or secondary meaning. The party who defends against the claim of infringement must overcome the mark owner's presumptively exclusive right to use its mark by a preponderance of the evidence. International Mobile Machines Corporation v. International Telephone and Telegraph Corp., 800 F.2d 1118, 1120, 231 U.S.P.Q. 142, 143 (Fed. Cir. 1986).

The prima facie presumptions to which the registrant is entitled become conclusive evidence of the exclusive right to use once the mark becomes incontestable. 15 U.S.C. §1115(b) (1993).

Incontestability may be achieved after five years' continuous use subsequent to registration if the mark is not subject to challenge.

In Dollar Park 'N Fly, Inc. v. Dollar Park and Fly, Inc., 499 U.S. 190, 224 U.S.P.Q. 327 (1985), remanded, 782 F.2d 1508, 228 U.S.P.Q. 853 (9th Cir. 1986), the Court held that incontestable registered marks can be used to enforce the registrant's rights and not just to defend against counterclaims or respond to affirmative defenses raised by the defendant that the

registrant's mark is merely descriptive and so not entitled to protection. The court also held that an incontestable mark cannot be challenged as merely descriptive and lacking secondary meaning. Id. at 196, 224 U.S.P.Q. at 330.

The federal registration not only serves to defend against challenge to the registration, but can be used offensively to stop an infringer.

3. Principal/Supplemental Registers

The 1946 Lanham Act created the Supplemental Register. 15 U.S.C. §1091 (1993). The main purposes served by the Supplemental Register are: to give access to U.S. registration for marks which are capable of functioning as marks, such as merely descriptive terms or surnames which have not yet attained secondary meaning, in order to allow the holder to obtain foreign protection; and to block registration of confusingly similar marks for substantially the same goods or services. Registrable items include:

any trademark, symbol, label, package, configuration of goods, name, word, slogan, phrase, surname, geographic name, numeral, or device or any combination of any of the foregoing, but such mark must be capable of distinguishing the applicant's goods or services.

15 U.S.C. §1091. Essentially, one need only show a mark is capable of eventually becoming distinctive. Therefore, secondary meaning need not be shown to secure registration on the Supplemental Register. All one need show is "whether the unusualness of the mark in its entirety is such that the mark as a whole could ever function to indicate the source of applicant's services." In re School Book Fairs, Inc., 229 U.S.P.Q. 556, 557 (T.T.A.B. 1986) (emphasis added). The bars to registration on the Supplemental Register remaining, however, are that a mark may not be generic, deceptively misdescriptive, or confusingly similar to a prior mark. In re Newport Fastener Co. Inc., 5 U.S.P.Q.2d 1064, 1067 (T.T.A.B. 1987); In re Bonni Keller Collections, 6 U.S.P.Q.2d 1224, 1227 (T.T.A.B. 1987); 15 U.S.C. §1052(d).

A registration on the Principal Register, by comparison, entitles the registrant to valuable evidentiary presumptions. It is prima facie evidence of:

the validity of the registration, registrant's ownership of the mark, and of registrant's exclusive right to use the mark in commerce in connection with the goods or services specified in the certificate subject to any conditions and limitations stated therein.

15 U.S.C. §1057(b) (1993). International Mobile Machines Corporation v. International Telephone and Telegraph Corp., 800 F.2d 1118, 1120, 231 U.S.P.Q. 142, 143 (Fed. Cir. 1986). For another party to overcome the presumption of validity of the registration, the standard of proof is a preponderance of the evidence. Id. at 1120, 231 U.S.P.Q. at 143; Dan Robbins & Associates, Inc. v. Questor Corp., 599 F.2d 1009, 1013, 202 U.S.P.Q. 100, 105 (C.C.P.A. 1979).

The registration can be used as evidence of secondary meaning, of inherent distinctiveness, of use, and that the mark is not confusingly similar to other registered marks. Because a mark must be used "in commerce" to be registrable, the Principal Register registration provides prima facie evidence that such use existed prior to the date of registration. 2 McCarthy, Trademarks and Unfair Competition, 19:5 (1995).

4. Dilution

A famous trademark may be protected from "a gradual whittling away" of the distinctive quality of such mark by the federal and state anti-dilution statutes. The first federal anti-dilution statute, 15 U.S.C. §1125(c), became effective on January 16, 1996. Under that statute, the owner of a famous trademark is entitled to an injunction against use of the same or a substantially similar mark by another even if there is no likelihood of confusion and even if there is no competition. The federal anti-dilution statute allows for a claim of monetary damages in addition to injunctive relief when the defendant's activities have been shown to be willful.

In a recent decision, the Supreme Court resolved a split in the circuit courts and held that a successful cause of action under the Federal Trademark Dilution Act ("FTDA") requires proof of actual dilution, as opposed to a mere likelihood of dilution or harm. Moseley et al. v. V Secret Catalogue, Inc., et al., 2003 U.S. LEXIS 1945 at *24 (March 4, 2003).

C. Scope of Protection

Once a Supplemental Register registration is obtained, in addition to the ability to apply for foreign registration, the mark owner receives certain benefits. Registration can be used as a reference by the examining trademark attorney to prevent registration of confusingly similar marks on the Supplemental or Principal Registers if the goods or services are substantially identical or closely related. In re Research and Trading Corp., 793 F.2d 1276, 23 U.S.P.Q. 49 (Fed. Cir. 1986); In re The Clorox Corp., 578 F.2d 305, 198 U.S.P.Q. 337 (C.C.P.A. 1978).

The Supplemental Register, however, does not entitle the registrant to the other benefits derived from the Principal Register. Thus, one cannot rely on a Supplemental Register registration to show that a mark is capable of functioning as a trademark or service mark on the Principal Register. See also, In re Serv-A-Portion Inc., 1 U.S.P.Q.2d 1915 (T.T.A.B. 1986) (two registrations incorporating the term "serv" on the Supplemental Register were held to have no probative evidentiary value to support the non-registrability of such marks on the Principal Register).

Registration of a mark on the Supplemental Register does not constitute an admission that the mark has not acquired distinctiveness.

A major benefit of a mark's registration on the Principal Register is the ability to achieve incontestability after five years. 15 U.S.C. §1065 (1993). Once a mark achieves incontestability, the registration becomes conclusive evidence of the registrant's right to use the mark in commerce subject to seven enumerated affirmative defenses, namely: (1) the

registration or the incontestable right to use the mark was obtained by fraud; (2) the mark has been abandoned; (3) the mark has been used to misrepresent source; (4) the defendant is making a good faith, fair use, not as a trademark; (5) the defendant adopted the mark without knowledge of registrant's prior use and has made continuous use from a date prior to the registration in a limited geographic area; (6) defendant's use is pursuant to registration issued prior to plaintiff's; and (7) the mark is being used to violate antitrust laws. 15 U.S.C. §1115(b) (1-7). See Dollar Park 'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 190, 196-201, 224 U.S.P.Q. 327, 330-332 (1985), remanded, 782 F.2d 1508, 228 U.S.P.Q. 853 (9th Cir. 1986) (The Supreme Court held that incontestability may be used both offensively to enjoin infringement, and defensively when the right to bring an infringement action is challenged); United States Jaycees v. Philadelphia Jaycees, 639 F.2d 134, 137, 209 U.S.P.Q. 457, 460 (3d Cir. 1981).

Registration on the Principal Register also establishes constructive notice to others of the registrant's claim of exclusive ownership. 15 U.S.C. §1072.

D. Transfer and Licensing of Trademarks

1. Divisibility

Under appropriate circumstances, a mark may be owned by two individuals or two legal entities. Two entities may join together as well under one mark to carry out a joint venture. Joint owners in such an undertaking share proprietary interest in the mark. An example of this type of venture is found in In re Diamond Walnut Growers, Inc. & Sunsweet Growers, Inc., 204 U.S.P.Q. 507 (T.T.A.B. 1979). In that case, the growers of DIAMOND walnuts and the growers of SUNSWEET prunes formed a joint venture to market combined gift packages named Diamond-Sunsweet, Inc. to which the mark DIAMOND/SUNSWEET was licensed. Both Diamond and Sunsweet owned 50% of Diamond/Sunsweet, Inc. and each provided for quality control over the nature and quality of the goods marketed by it. The agreement also provided that neither Diamond nor Sunsweet could individually use the composite mark in order to prevent any likelihood of confusion as to the source of the goods. Id. at 510, 511.

In addition to the joint venture situation with joint owner-registrants, the joint venture itself can become a separate legal entity entitled to be the sole owner of the registration. In In re Hercofina, 207 U.S.P.Q. 777 (T.T.A.B. 1980), Hercules Incorporated and American Petrofina formed Hercofina as a joint venture to produce dimethyl terephthalate. The two venturers formed a Board of Managers comprised of members from both corporations. They also appointed a General Manager to oversee the venture. Hercofina applied and was granted its own registration. Id. at 782, 783.

Trademarks can also be owned by two different parties who agree to use the same mark in two distinct, non-overlapping territories. In Meyer, Inc. v. Purple Cow Pancake House, 226 U.S.P.Q. 280 (T.T.A.B. 1985) the Trademark Trial and Appeal Board approved an agreement between the applicant, Meyer, and the registrant, Purple Cow Pancake House, for concurrent use and registration of the mark PURPLE COW for ice cream and confectionery stores east of the Mississippi River and for restaurant services west of the Mississippi River

respectively. The Board allowed the concurrent use and registration to be granted to Meyer and approved the agreement, because provisions existed which restricted the advertising use and display of the mark to the territory of use granted. Any advertising which might possibly "spill over" into the registrant's territory was to include an express disclaimer of affiliation to Purple Cow Pancake House. Id. at 281, 282.

2. Assignments

An assignment is a sale or other transfer of all rights in a mark. The rights in the mark arise from the use of the mark in a certain business or on certain goods. The mark cannot be separated from the goodwill generated by its use. Any assignment which transfers the mark without goodwill is deemed an assignment in gross. An assignment in gross works an involuntary abandonment of rights in the mark.

Goodwill is an intangible asset of a business, *i.e.* the reputation; the reason satisfied customers repeat their business.

When a trademark is assigned, the determination of whether the "goodwill" was transferred is guided by the principle of consumer protection. The quality of the goods should be substantially the same. Visa, U.S.A., Inc. v. Birmingham Trust National Bank, 696 F.2d 1371, 1377, 216 U.S.P.Q. 649, 653 (Fed. Cir. 1982).

The transfer of tangible assets may serve as evidence that goodwill was, in fact, transferred. S.D. Kane, Trademark Law, A Practitioner's Guide, 171-172 (1987). If tangible assets of the assignor's business are necessary to maintaining the quality of the goods after assignment, the assignee should attempt to acquire them. However, for an assignment to be valid, there is no absolute requirement that such physical, tangible assets be transferred. Visa, U.S.A., Inc., 696 F.2d at 1375, 216 U.S.P.Q. at 652.

While there are no restrictions on assignments of applications for registration which are based on use, until an amendment to allege use or a statement of use is filed, an "intent to use" application cannot be assigned except to a successor to the ongoing and existing business of the applicant, or portion thereof, to which the mark pertains. This provision was intended to restrict "trafficking" in trademarks.

3. Security Interests

Since trademarks are property and as such have value, they can be used as security for a debt. To avoid the assignment-in-gross rule while the debtor has not defaulted and is still operating under its mark, the assignment for security purposes is properly done as a conditional assignment. This is not a present transfer but an agreement to assign in the future if a default should occur. Done properly, it includes a security interest in the product line or business symbolized by the mark, and provides that upon default, those business assets must pass to the creditor with the mark.

Trademarks are assignable in bankruptcy and insolvency proceedings. Under the Bankruptcy code 365, free assignability by the bankrupt is encouraged according to the bankruptcy law principle that the sale should "maximize" the estate. Lieb, The Interface of Trademark and Bankruptcy Law, 78 Trademark Rep. 307, 319 (1988). However, the assignment in gross rule still applies. So long as the assignment was valid under the Lanham Act, the bankruptcy trustee has possession of the secured assets.

4. Recordation

Under the Uniform Commercial Code, a trademark is considered a "general intangible." UCC 9-106. Generally, interests in such assets must be filed with the state UCC. Interests in non-federally registered marks are perfected in just such a manner, by filing a state UCC financing statement with regard to the trademarks and other intangible assets.

Assignments of federal registrations and applications for marks must be recorded in the Patent and Trademark Office. 15 U.S.C. §1060 (1993). The recordation serves as prima facie evidence of execution of the assignment. The burden is on a challenging party to then prove the assignment invalid. 15 U.S.C. §1060; 37 C.F.R. §2.185 (1993).

Security grants of federal trademarks should be recorded under Article 9 of the UCC because they are not "absolute" transfers of trademark rights as such. In the Matter of Roman Cleanser Co. and Roman Cleanser Co., et al. v. National Acceptance Company of America, et al., 43 B.R. 940, 225 U.S.P.Q. 140, 143 (B.C.E.D. Mich. 1984), aff'd, 802 F.2d 207, 231 U.S.P.Q. 301 (6th Cir. 1986).

5. Licensing

The rights to use a trademark can be licensed to another. However, licenses which do not permit the licensor exercise of adequate control over the use of the trademark are considered "naked" licenses. In terms of traditional trademark theory, they pose the danger of confusion of the public insofar as the public expects the goods sold under a mark to come from a single source and to be somewhat uniform in quality. Absent licensor control, there is no uniformity of quality, and there is, in fact, no single source of the product sold under the mark. While a naked license is valid as between the parties, and a licensee can generally not attack the rights of the licensor of the trademark on the grounds that it gave the licensee a naked license, a third party may challenge the licensor's rights in the trademark on the ground that the naked license has worked an abandonment of trademark rights. The grounds for finding abandonment are that the trademark no longer signifies a product which originates with or is under the control of the trademark owner. Haymaker Sports, Inc. v. Turian, 581 F.2d 257, 261, 198 U.S.P.Q. 610, 613 (C.C.P.A. 1978).

Licenses can be exclusive or nonexclusive. Exclusive licenses give the licensee the right to use the trademark to the exclusion of everyone else, including the licensor. Non-exclusive licenses give the licensee the right to use the mark, but the licensor may also license third parties.

A license can be a written contract (trademark license agreement) or an oral contract. The license should contain a quality control provision. However, it is more significant that the quality control exists de facto than that the language itself is present. In Stockpot, Inc. v. Stock Pot Restaurant, Inc., 220 U.S.P.Q. 52 (T.T.A.B. 1983), the licensing provisions regarding quality control were deficient, but sufficient actual control existed such that the agreement was held valid. Id. at 60, 61.

Quality control presents difficult questions in the area of character merchandising and exploitation of well-known invented names. Character merchandising involves the licensing and use of the "character" in connection with many different goods. In Great Britain, trademark "trafficking" is prohibited. Trafficking begins in the grey area where legitimate mass merchandising ends.

If the licensor is "dealing in a trade mark primarily as a commodity in its own right and not primarily for the purpose of identifying or promoting merchandise in which the proprietor of the mark is interested," trafficking may be present. Bigger, Licensing and Character Merchandising - Registrability of Trademarks Proposed to be Used by Licensees, 74 Trademark Rep. 175, 177 (1984).

Considering the popularity of character merchandising in the United States, the differentiation between such "trafficking" and legitimate merchandising raises the issue of whether adequate control over licensee use is being exerted by the licensors in these situations. However, "trafficking" as such has never really emerged as an issue in the United States.

E. Foreign Protection of Trademarks

Just as federal trademark registration provides many benefits to a trademark owner in the United States, registering a trademark in foreign countries provides various benefits and legal presumptions, which vary by country. Owning a trademark registration in the United States additionally serves as a potential basis for seeking registration of a trademark outside the United States.

Companies domiciled in the United States who desire to protect their trademarks outside the United States have traditionally only been able to seek protection of their trademarks through the filing of separate trademark applications in individual foreign countries. However, over the last several years, an increasing number of methods have been made available to companies wishing to seek foreign trademark protection.

Beginning in 1996, the filing of single application in the European Union's Office for Harmonization in the Internal Market (OHIM) in Alicante, Spain made it possible to secure a trademark registration covering each of the countries of the European Union, which has recently expanded to include additional countries. The filing of such an application, however, requires applicants for such registrations to work through a legal representative in a member country of the European Union and can be quite costly. The current countries covered by a registration in

the European Community are Austria, Benelux (Belgium, the Netherlands and Luxembourg), Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Malta, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

Additionally, on November 2, 2003, the United States finally joined the Madrid Protocol system for the international registration of trademarks. This is one of the more significant developments in U.S. trademark law in recent years and provides U.S. companies with a method for obtaining international trademark protection that is streamlined and potentially very cost efficient. Under the Madrid Protocol system, U.S. companies can rely upon their U.S. trademark applications or registrations to obtain trademark protection in countries that are members of the Madrid Protocol with a single filing. Likewise, foreign companies in the other member countries can use the Madrid Protocol to secure protection in the United States. The rights that result from a trademark registration issued pursuant to the Madrid Protocol system are equivalent to the rights secured through the direct registration of a mark in a member country, *i.e.*, a national trademark registration in that country.

A U.S. company commences the process of securing foreign protection under the Madrid Protocol by filing a trademark application in the U.S. Patent and Trademark Office or relying upon an existing registration as the basis for filing a separate application in the U.S. Patent and Trademark Office seeking an extension of that application or registration to other member countries of the Madrid Protocol. This subsequent application is called an “international application” and designates all of the member countries in which protection is sought. The U.S. Patent and Trademark Office then forwards the international application to World Intellectual Property Office in Geneva, Switzerland, which grants the international registration, if all formal requirements are met and the individual member countries in which registration is sought do not refuse registration of the mark after their own review of the application.

Current members of the Madrid Protocol include countries of the European Union, some countries in Eastern Europe and from the former Soviet Union, Australia, Japan, China, and a number of African countries. At present, the only member countries in either the North or South American region are the United States, Cuba and Antigua and Barbuda. Countries that are not members of the Protocol include most Spanish speaking countries because the permissible languages for Protocol filings are limited to English and French.

IV. COPYRIGHTS

A. Copyrightable Subject Matter

The standards for subject matter which may be protected by copyrights are set forth in Section 102 of the Copyright Act of 1976. 17 U.S.C. §102(a). In general, "copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. §102(a). The test for determining whether subject matter is copyrightable includes three parts: (1) it must be original; (2) it must be fixed in a tangible medium of expression; and (3) it must be a work of authorship.

1. Originality

Since copyright protection subsists only in "original works of authorship," the question of what constitutes an "original" work is important in determining whether a work is copyrightable subject matter. Originality for copyright protection does not require novelty.

In order for a work of authorship to be capable of being protected by copyright, more than mere trivial or insignificant independent creative effort is required to meet the originality part of the test for copyrightable subject matter. The exact degree of originality required for copyright protection has not been defined clearly by either the legislature or the courts. However, originality appears to involve a relationship between creativity and independent effort in producing a work of authorship, e.g., the smaller the independent effort, the greater must be the creativity and vice versa.

For example, in Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340 (1991), the U.S. Supreme Court held that the selection, arrangement and coordination of public-domain facts in a white pages telephone directory lacked the minimum amount of creativity required for copyright protection.

2. Fixation on Tangible Medium

In order to satisfy the requirement of fixation, it is not necessary that the work of authorship be fixed in a medium of expression where it can be seen or read directly. The requirement is satisfied even if the work of authorship is fixed in a medium of expression where it can be read only with the aid of a machine or other device. As defined in the Copyright Act of 1976, a work is "fixed" in a tangible medium of expression when it "is sufficiently permanent or stable to permit it to be perceived, reproduced or otherwise communicated for a period of more than transitory duration." 17 U.S.C. §101.

3. Works of Authorship - What Forms of Works Are Copyrightable?

Section 102(a) lists the following seven categories of "works of authorship": (1) literary works; (2) musical works, including accompanying words; (3) dramatic works, including accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audio visual works; and (7) sound recordings. 17 U.S.C. §102(a). These categories are not intended to be limiting, but are illustrative of works of authorship protectable by copyright. Although not specifically mentioned in Section 102(a), computer programs, cartoon characters, and fabric designs may be copyrightable subject matter.

Copyright protection also includes compilations and derivative works. Under 17 U.S.C. §103, "the copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material." The compilation or derivative work must satisfy the three parts of the test Section 102(a) sets forth.

Works that may not be protectable by copyright include: choreographic works not written or recorded, speeches, and other performances not fixed in a tangible medium; titles, names, short phrases and slogans, familiar symbols or designs, and other works lacking sufficient creativity or independent effort; designs of useful articles or products where the designs are not conceptually separable from the functional aspects of the article or product; works consisting only of information that is in the public domain; and blank forms and other works which are designed for recording information and which do not in themselves convey information.

4. Computer Programs

(a) Definition

A computer program is a "literary work" of authorship under the copyright law and may be copyrightable subject matter. Sometimes associated with a computer program is an "audio-visual work" of authorship which is performed or displayed on a screen when the program is operating. 17 U.S.C. §101. This audiovisual work may be a separate copyrightable work. See Midway Mfg. Co. v. Arctic International, Inc., 704 F.2d 1009, 218 U.S.P.Q. 791 (7th Cir. 1983), cert. denied 464 U.S. 823; Stern Electronics, Inc. v. Kaufman, 669 F.2d 852, 213 U.S.P.Q. 443 (2d Cir. 1982); Williams Electronics, Inc. v. Arctic International, Inc., 685 F.2d 870, 215 U.S.P.Q. 405 (3d Cir. 1982).

(b) What is Protected

Copyright does not protect the underlying ideas, design concepts, system, or process of the program or the audiovisual work. 17 U.S.C. §102(b). Copyright protects the specific expression of a set of statements or instructions or specific expression of an audiovisual work. This idea/expression dichotomy is not easy to resolve for computer programs. In general,

the owner of copyright in a program can prohibit unauthorized reproduction and distribution of copies of the program, unauthorized preparation of derivative works based upon the program, and unauthorized public performance and display of the program or audiovisual work, but the copyright owner cannot prohibit utilization of the underlying design concepts of the program or audiovisual work to create independently another program which will achieve the same results.

Recently, the United States Court of Appeals for the First Circuit held that the menu command hierarchy for a computer spread sheet program was an uncopyrightable "method of operation". Lotus Development Corp. v. Borland International, Inc., 49 F.3d 807 (1st Cir.), cert. granted, 116 S. Ct. 39 (1995). The First Circuit reasoned that the familiar menu commands embodied in Lotus' "Lotus 1-2-3" program did not merely explain and present the program's functional capabilities to the user, but also served as a method by which the program is operated and controlled. Thus, the First Circuit held that menu was an uncopyrightable "method of operation", much like the arrangement and labeling of buttons on a VCR. Following the First Circuit's decision, the Supreme Court, in January 1996, summarily affirmed the First Circuit's opinion without an opinion in a 4-4 decision. Accordingly, many computer programs will now be more vulnerable to imitation.

B. What is Protected? - Rights Conferred By Copyright

The owner of copyright in a work of authorship "has the exclusive right to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords; (2) to prepare derivative works based upon the copyrighted work; (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending; (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly." 17 U.S.C. §106.

Neither publication nor registration or other action in the U.S. Copyright Office is a prerequisite to securing copyright protection. Copyright protection starts automatically as soon as a work is created. "A work is 'created' when it is fixed in a copy or phonorecord for the first time; where a work is prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time; and where the work has been prepared in different versions, each version constitutes a separate work." 17 U.S.C. §101.

C. Registration: Scope and Duration

Registration is not a condition of copyright protection. 17 U.S.C. §408(a). However, in some situations, registration may be a necessity to the continued existence of copyright protection. Where more than a relatively small number of copies or phonorecords were publicly distributed by authority of the copyright owner without the required copyright notice after January 1, 1978 but prior to March 1, 1989, the owner's copyright rights could be

preserved if the work was registered within five years after publication without the notice and the copyright owner made a reasonable effort to add notice to all copies or phonorecords distributed to the public after the omission has been discovered. 17 U.S.C. §405(a)(2).

Registration is a prerequisite to an infringement action and to certain remedies for infringement. 17 U.S.C. §§411 and 412.

D. Transfers and Licensing of Copyright Rights

1. Divisibility

The owner of the copyright in a work of authorship has the right to convey any one or more of the rights listed in Section 106 while retaining ownership of the copyright in the other rights or to transfer all of these rights, thereby divesting complete ownership of the copyright.

2. Assignment

Assignments are the most common means of transferring copyright ownership. As assignment is a sale or transfer of the copyright, and title passes from the author to the assignee. An assignment of the copyright transfers all of the rights, title and interest to the assignee. An assignment of assets to a creditor in order to satisfy a debt has been found to include copyrights owned by the debtor. The duration of the assignment, if not otherwise expressly prescribed in the agreement, will last the length of the then existing copyright term of the work.

3. Security Interest

The transfer of copyright ownership includes a mortgage of the copyright, by conveyance or operation of law. A copyright is treated as property, and has value for which it may serve as collateral. The recording provisions of the Copyright Act apply and must be followed to insure the validity of the mortgage. It need not meet state law requirements of form, mode of execution, or recordation, but it is best if the mortgage conforms to both state and federal requirements. Foreclosure of copyright mortgages is performed on the state level.

4. Recordation

Transfers of copyright, other than those by operation of law, are not valid "unless an instrument of conveyance, or a note or memorandum of the transfer is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent." 17 U.S.C. §204(a). Recordation gives constructive notice to the work it identifies, so long as registration was made for the work.

Recordation grants the transferee protection from the author's possible subsequent transfer to another. The timing concerning the transfer and recordation are important in

resolving conflicts in transfers of ownership. Recordation is also a prerequisite to an infringement suit by the assignee.

5. Licensing

For copyrights, a license grants the licensee permission to engage in one or more of the copyright owner's exclusive rights. Licenses do not convey all rights of the copyright owner, but are limited in either time or scope.

An exclusive licensee of any right under the Copyright Act also gains standing to sue in its own name, but only for an infringement of that specific right. A nonexclusive licensee has no such standing to sue in its own name for any infringement. The doctrine of divisibility provides for the divisibility of the rights granted an owner of a copyright, not divisibility of the copyright. The protection and remedies that accompany these rights are extended to the exclusive licensee. This extension does not create a separate copyright for the licensee; rather the licensor owns the copyright, and is subject to the provisions regarding publication, registration and notice. Any limitations on the licensor regarding protection and remedies are similarly binding on licensees.

V. PATENTS

A. Patent Protection and Rights Conferred

A U.S. patent gives exclusive property rights to an inventor for the invention covered by the patent. The invention covered by a patent is that invention defined in the portion of the patent called the "claims," one or more single-sentence description(s) of the patented invention that define the "metes and bounds," *i.e.*, scope, of the patent. A patent is not self-enforcing. The patent owner must bring suit in federal court to enforce the patent.

A patent grants to the patentee and his assigns only the right to exclude or prevent others from making, using, offering for sale, or selling the patented invention in the United States, or from importing the patented invention into the United States. The property right does not extend beyond that. It does not grant an affirmative right to the patent owner to exclusively practice the patented invention.

B. Forms of Patent Protection

1. Utility Patents

A utility patent is the normal type of patent issued for a new means of achieving a useful end or result. The Patent Act provides that:

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and

useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

Computer software in some instances, "biotech" inventions and other types of inventions which may not appear on their faces to be within the statutory classes, have been held to be patentable. A "manufacture" or "article of manufacture" can generally be thought of as a comprehensive class of inventions, including every article devised by man except machinery and compositions of matter and designs.

Utility patent applications can only issue from non-provisional utility patent applications. Since June 8, 1995, Applicants have had the option of filing provisional utility patent applications consisting of a written specification and drawings, without claims, in order to obtain and preserve a priority date, *i.e.*, application filing date. Provisional applications are not examined and are automatically abandoned 12 months from the filing date. Accordingly, in order to obtain utility patent protection, a non-provisional utility application must be filed within the 12 month period.

2. Design Patents

A design patent grants to the holder the right to exclude others from making, using, or selling the patented design. Upon expiration of the design patent, the owner loses this exclusivity.

C. Transfer and Licensing of Patent Rights

1. Divisibility

Patent rights may be divided up along different lines such as time, field or use, or territory. One who acquires such a limited right acquires a "divided" interest in the patent. An "undivided" interest occurs where a person owns a share in and a right to all of the divisible, but undivided, patent rights.

When a patent application lists a number of co- or joint inventors, each will be deemed to have an equal interest to that of the others (unless between themselves, they agree otherwise). The only importance attached to the proportion which each joint or co-owner possesses is where there is a recovery of damages for infringement. Otherwise, ownership of a portion of a patent entitles one to license the entire invention.

2. Assignments

An assignment involves a complete transfer of patent rights, while a license, even an exclusive license under all patent rights, provides the patentee-licensor the right to control the licensee under the terms of the license agreement. The only transfers amounting to be an assignment are those involving either the transfer of (1) an entire patent; (2) an individual portion

of all the rights embraced; and (3) all the rights embraced in a patent to any specified part of the U.S. Transfer of anything less will probably be deemed a license.

Both patent applications and patents are "assignable" in law by an instrument in writing. 35 U.S.C. §261. Agreements transferring patent rights must be either assignments or licenses. Both assignment agreements and license agreements are deemed matters of state-based contract law. However, since assignments are specifically mentioned in the patent statute, they may be deemed to give rise to a federal question for jurisdictional purposes, at least.

3. Security Interests

Rights in patents are personal property and, for collateral purposes, are classified as intangibles. UCC §9-106. As collateral for a loan, lenders can obtain a lien on a patent. The lender/assignee may physically hold possession of the written instrument until the debt is satisfied. For intellectual property to be given weight as collateral for a loan, lenders usually conduct an independent investigation to determine whether any superior right to the patent exists or review any legal opinions regarding infringement before using a patent as collateral for a loan. Even though patents are governed by federal statutes, state law will govern the majority of legal questions which may arise in dealing with security interests with respect to intellectual property.

4. Recordation

Documents relating to title to patents are required to be recorded in the U.S. Patent and Trademark Office in order to cut off the rights of bona fide purchasers for value without notice. The Patent and Trademark Office maintains a public register of all assignments of issued patents.

To be recordable, an instrument must identify a specific application (by its serial number) or patent (by its patent number). Agreements to assign inventions to be made in the future (as employee agreements) are not recordable and need not even be in writing to be enforceable. However, conditional assignments are recordable and the U.S. Patent and Trademark Office will consider these as absolute assignments until cancelled with the written consent of both parties. 37 C.F.R. §1.333. Licenses may also be recorded at the discretion of the Commissioner of Patents and Trademarks, although they are usually not recorded. Recordation protects the recording assignee from subsequent purchasers who are without actual notice of the unrecorded assignment.

5. Licensing

A patent license, which is a unilateral grant of rights by the patentee-licensor, is usually encompassed in the terms of a patent license contract or agreement. A license does not constitute any interest in the patent. It is a personal right to make, use and/or sell the invention, which may not be shared or transferred to others absent an express provision sanctioning sub-licensing. As mentioned previously, patent licenses are not governed by federal law, but by state contract law. Any action, either to enforce or annul a patent license contract, including royalties,

arises out of such a contract and is not under the patent laws, even though the contract concerns patent rights.

A license may be exclusive or nonexclusive. An exclusive license precludes even the licensor from making, using or selling the patented invention and from granting any license other than the immediate one. A "sole" license typically allows the licensor and the licensee individually to make, use or sell the patented invention. This type of license is relatively rare. A nonexclusive license may be more accurately characterized as a sharing of patent rights among several licensees.

"The American Inventors Protection Act" (P.L 106-113) was signed into law. This new law will have a major impact on all aspects of patent law in the United States. The changes went into effect on November 29, 2000.

6. Publication

All patent applications, subject to the exceptions outlined below, will be published 18 months after filing. This new provision changes the current policy of "confidentiality" of all patent applications and makes the United States Patent and Trademark Office (USPTO) requirements consistent with its European and Asian counterparts, most of which already require publication. Publication can be avoided for applications that will not be filed abroad. Design patent applications, provisional applications and applications for patents concerning issues of national security will not be published.

The public will have access to published applications and application files. Assignment information will also be made available, if it was included in the application. When a patent application has been published, a third party may not oppose a published application. However, any member of the public may submit limited prior art without comment against a pending published application. It is expected that companies may monitor the published applications of their competitors (1) to cite prior art against the applications and (2) to determine if there are potential infringement issues.

7. Provisional Rights for Published Claims

The new law requiring publication gives rise to the possibility of infringement of the invention after publication of the application, but prior to issuance of the patent. As a result, a patentee now has the right, if a patent is issued, to obtain reasonable royalties if others infringe the published claims during the period between publication and issuance of the patent. The claims in the issued patent must be substantially identical to the claims in the published application. The action must be brought within six months of the issue date and may not be brought sooner than the issuance of the patent.

8. Patent Term Guarantee and Adjustment

The new law also guarantees that a patent that has been prosecuted with reasonable diligence will remain effective for at least 17 years. The statute sets limits on the amount of time in which the USPTO must issue actions and establishes a three-year pendency limit on all patent applications. Any delay by the USPTO beyond these limits will be added to the term of the patent. These adjustments affect all patents with an application filing date of May 29, 2000, or later.

Time during which the applicant failed to engage in reasonable prosecution efforts will be deducted from any available adjustment.

The length of the adjustment will automatically be calculated by the USPTO, and will be set forth in the final notice of allowance. Possible errors may be addressed by requesting reconsideration of the adjustment term before paying the issue fee.

In the event that an applicant is dissatisfied with the USPTO's response to his or her request for reconsideration, the applicant may file an action within a limited time period after the grant of the patent in the U.S. District Court in Washington, D.C. for review of the request.


9. Inter Partes Reexamination

The new law introduces an optional procedure for *inter partes* reexamination of patents that have an original application date of November 29, 1999, or later. This new procedure will allow a third party to request and participate directly in a patent reexamination by submitting a written comment each time the patent owner files a response to the USPTO.

The third-party requester in an *inter partes* reexamination has the right to appeal a decision that a claim is patentable. For all practical purposes, however, the various estoppel provisions attached to the *inter partes* proceeding can later be challenged in court or in subsequent *inter partes* proceedings unless new previously unavailable prior art is found.

10. First Inventor Defense

The new law provides a defense to an action for infringement of patents for methods of doing business. The defense is established if the defendant has, acting in good faith: (1) reduced the subject matter to practice at least one year before the effective filing date of the patent asserted against him or her, and (2) used the subject matter commercially before the effective filing date of the patent.




**102 Circling the Wagons: How
Small Law Departments Can
Protect and Maximize IP Assets**


**Thomas R. Wilcox
Jordan A. Lavine
Joan M. Lebow
Mark Beesley**

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**Implementing a Company-wide IP
Protection and Registration
Program**

 **Jordan Lavine, Esq & Tom Wilcox, Esq.**

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Who Understands the Issues?

- Legal Department's job is to protect Company's assets and educate Stakeholders on issues
- 1. C-Level
- 2. Executives
- 3. Board
- 4. Middle Management
- 5. Employee base (particularly inventors)
- 6. Consultant/Contractors

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Communication Plan

- Already have the Who.
- What?
- Why?
- When?
- How?
 - Depends on Company and channels of communication

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Launching Your Program

- **a. Communicate, Educate Stakeholders**
- **b. Establish contact with Outside Counsel**
- **c. First Meeting**
 - Preparation
 - Due Diligence of IP Assets
 - Prepare IP 101 Training for Team
 - Establish Purpose and direction of Team
 - Expectations going forward

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Keep the IP Program Going

- **a. Get message out to whole company**
- **b. Map process of how inventions come into pipeline, who flags to team**
- **c. Team members to represent various functions in company to be gate keepers and fishers of technology to report to team**
- **d. Communicate status to Stakeholders**
- **e. Communicate Successes to Stakeholders**
- **f. Celebrate and Announce Successes to whole company**

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Things to Keep in Mind

- **a. Proprietary Information agreements**
- **b. Inside Code of business statement**
- **c. Incentive programs to increase invention submission**
- **d. Establish Training programs for departments**
- **e. Work with HR to ensure employment agreements and terminations cover protection issues**
- **f. Sales, Vendor, Joint development and partnering agreements reviewed closely with respect to IP ownership issues**
- **g. Non-compete agreements**

SMG IP Protection/Asset Enhancement Team

SMG IP Protection/Asset Enhancement Team Members

- **The First Meeting**
 - **Announce/Introduce Team Members**
 - **Explain purposes**
 - **Educate on IP**
 - **Give direction**
 - **Set expectations**
 - **Assign Roles**

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What is IP and what are Assets?

- **IP = Intellectual Property (technology, know-how, inventions, processes, knowledge content, software, trademarks, designs, titles, symbols, names)**
- **Assets = Anything of value to the company that we can account for on our books (doesn't include our most valuable resource: our employees), our special technology, our inventions, our proprietary software, our simulations, our simulation processes, and any business process we created.**

Why do we need to protect our IP and enhance our Assets?

Protection:

- *Prevent use of inventions by others.*
- *Prevent others from owning technology and restricting SMG's usage and sale.*
- *Maintain profit margins.*

Enhancement:

- *Position our technology to be leader in marketplace.*
- *Create value to company and share price.*
- *Instill pride in technology and inventions.*

Why do we need a team?

Informed and Involved Players at SMG:

- *Need involvement from all product and development sources.*
- *Educated and experienced eyes and brains to screen and evaluate potential technology to convert to protected IP.*
- *Track potential candidates for filing and registration.*
- *Determine value of each potential candidate for final decision on filing for protection and ownership rights.*

Categories of IP

- Definitions
- PATENT - carefully defined and limited monopoly for a specified number of years granted by national law to an inventor to prevent others from making, using, or selling that invention in that jurisdiction (includes business methods and can include software).
- TRADEMARK - a word, symbol or combination thereof that is adopted and used by a manufacturer to distinguish its goods from those of its competitors, or, in the case of a service mark, (TWA, Hilton), to differentiate services.

Categories of IP

- Def. (cont.)
- KNOW-HOW - encompasses trade secrets and unpatentable manufacturing processes as well as other industrial or commercial techniques outside the public domain.
- COPYRIGHT - legal recognition of a creator's exclusive right to an original work of authorship represented as a tangible medium of expression (includes software).

What IP does SMG have protected?

SMG's protected IP consists of:

- _____ *Registered Marks,*
- _____ *Pending Registrations (takes usually 6-18 months)*
- _____ *Copyright registrations*
- _____ **PATENTS**

Trademarks

- A trademark is any word, symbol or device that serves to indicate origin with a single source.
- Some trademarks are words, some are letters, some are combinations of words or letters and numbers.
- A trademark may be a combination of colors and shapes.
- A trademark may be the configuration of the package for a product, or the configuration of the product itself, so long as the configuration is not dictated by functional considerations and is distinctive or capable of distinguishing the goods of the producer from like goods of others.
- A trademark has a function of identification: it identifies a product as coming from one source as opposed to any others.

Copyrights

Copyrights:

- Copyright protection exists in original works of authorship fixed in any tangible form including literary works, pictorial and graphic works, audio visual works.
- Copyright protection is not available for ideas, procedure, processes, systems, methods of operation, however described, explained or illustrated.
- Copyright protection comes into being when the work is fixed in tangible form, without the need for affixation of a copyright notice and without the need for registration.
- The copyright owner has the exclusive right to reproduce the copyrighted work, to prepare derivative works based on the copyrighted work, to distribute copies of the copyrighted work.

Why register if you have exclusive rights?

Copyright registration:

- There are benefits to registering the work at the U.S. Copyright Office, including the ability to obtain statutory damages (even absent any actual damages) and attorneys' fees in a copyright infringement action.
- Registration is also necessary to bring an enforcement action, although, in some courts, it is enough to have filed a copyright application for the infringed work.
- Although copyright will protect literal or non-literal copying of software, it will not protect the basic functionality of the software.

Patents

Types of patents:

- **Utility** : inventions and processes that can be electrical, mechanical or chemical in nature. Can include e-Business, business methods and software.
- **Design**: designs of a distinctive or ornamental nature.
- Requirements for granting patents:
 - **New (novel)**,
 - **Useful**, and
 - **Non-obvious (significantly different from the existing)**

Patents

Novelty Requirement:

- *More than one year prior to filing, invention must not have been:*
 - *Known to the public;*
 - *Open for sale, use or display to public;*
 - *Discussed or published in public forum; or*
 - *Patented or described in the US or Foreign country*
- *Underscores the importance of the Team:*
 - *Identify patent-able inventions early.*
 - *Inform employees of need to keep inventions private until timing is right.*
 - *Emphasis needed to make inventions known internally.*
 - *Timely analysis and decisions.*

Patent Protection

- **A patent owner has the right to exclude others from making, using, or selling the patented invention in the US.**
- **Patent protection can be a powerful sword or shield because patent cross-licensing is frequently used to resolve infringement claims between parties.**
- *Again, underscores the importance of the Team:*
 - *Screen and evaluate all relevant external, third-party patents and identify risks to our development work.*
 - *Inform employees of need to keep eyes open to external inventions in industry.*

What is some of our patent-able IP?

- **Listed potential candidates**

Trade Secret (Know-how)

- **Almost any subject matter that is valuable by virtue of not being generally known can qualify as a trade secret.**
- **Protection lasts only as long as the owner exercises reasonable efforts to maintain secrecy.**
- **Need to show that you treated the software as a trade secret before it was misappropriated.**
- **Trade secret protection is often the least bureaucratic and most inexpensive method of intellectual property protection.**
- **A trade secret is valuable only to the extent that you protect it.**
- **Make sure product development teams take appropriate precautions to keep inventions private until company can make an informed copyright or patent protection decision.**

What Team's Role?

The Team is important because it will:

- **Id the IP** : Identify potential sources of IP that needs evaluation and potentially official protection.
- **Protect the IP**: Inform employees of need to keep our inventions and development work confidential.
- **Enhance the IP**: Analyze value of IP to company and propose proper filings and registrations for protection.
- **Elevate the IP**: Bring awareness to company of need to internally recognize value of IP and submit inventions and technology development for consideration.

Where does Team begin?

- **Team Formation:**
 - Establish clear vision and mission for team.
 - Understand purpose and goals.
 - Create ground rules for team meetings.
- **Team Functions:**
 - Evaluate
 - Deliberate
 - Communicate
 - Educate
 - Formulate
 - Administrate



102 Circling the Wagons: How Small Law Departments Can Protect and Maximize IP Assets

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IP/IC Value

- Company value = tangible + intangible assets (book value + (IP + IC + brand + customer base + technology, etc.)
- IP and IC make up a significant portion of the value of many companies
- In-house goal: protect valuable assets from those who want to misappropriate them

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Who Wants Your Company's IP?

- Competition
- Partners
 - Joint development/venture partners
 - Licensors/licensees
 - Manufacturers
- Employees
 - Intentional disclosure or misappropriation
 - Unintentional disclosure
- Consultants

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How to Keep Your IP and IC

- From Partners
 - Joint development / venture partners
 - Deal with exposure to confidential information
 - Who owns IP?
 - Who owns new ideas?
 - Joint development agreements
 - NDAs
 - License agreements
 - Ownership of licensed IP vs. new IP

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How to Keep Your IP and IC

- From Manufacturing Partners
 - Foreign / domestic outsourcing
 - IP rights in the country of manufacture
 - Manufacturing agreements
 - Process/tooling ownership

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How to Keep Your IP and IC

- Prevent Employee Disclosure
 - Unintentional disclosure
 - Employee training
 - Invention disclosure guidelines
 - Prevent premature exposure of technology and research
 - Documenting inventions: project journals
 - Inventor award programs
 - Confidentiality notices
 - IP audits

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How to Keep Your IP and IC

- Prevent Employee Disclosure (continued)
 - Intentional employee IP appropriation or disclosure and employee IC
 - IP assignments / company registration vs. employee registration
 - Asset protection agreements
 - Non-compete agreements

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How to Keep Your IP and IC

- From Consultants
 - Consultant agreements

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PRODUCT DEVELOPMENT CONFIDENTIALITY AGREEMENT

This Agreement, effective as of _____, is entered into by and between XXX Company, including its subsidiaries and affiliates, having an address at _____ ("XXX"), and YYY Company, including its subsidiaries and affiliates, having an address at _____ ("YYY").

WHEREAS, XXX wishes to protect the confidentiality of its information which may be supplied to YYY as a result of a business relationships between XXX and YYY;

WHEREAS, YYY wishes to protect the confidentiality of its business information which may be supplied to XXX as a result of a business relationships between YYY and XXX; and

WHEREAS, the parties hereto desire and have agreed that Confidential Information (as hereinafter defined) made available by one party (the "Disclosing Party") to the other party (the "Receiving Party") shall be kept confidential by the Receiving Party.

NOW, THEREFORE, in consideration of the mutual covenants and premises contained herein, XXX and YYY agree as follows:

1. As used in this Agreement, the term "Confidential Information" shall mean any information in any form emanating, directly or indirectly, from the Disclosing Party or any of its employees or agents, and any of its divisions and subsidiaries, including, but not limited to, trade secrets, product design, patents, patents pending or contemplated and interpretation of patents, customer lists, products lines, methods of business operation of the Disclosing Party, technical information, economic information data, specifications, know-how, process information and methods of manufacture, distribution and sale relating to the development and marketing of the Disclosing Party's product and general business operations. "Confidential Information" does not include any information which (a) at the time of disclosure is generally known by the public or thereafter becomes public knowledge through no act or omission of or on behalf of the Receiving Party; (b) is disclosed to the Receiving Party by third parties having a right to do so and who have not imposed upon the Receiving Party obligations of confidentiality in respect thereof, (c) is known to the Receiving Party, as can be documented, prior to disclosure, or (d) is required to be disclosed by law or court order.
2. Each party hereto acknowledges that the other party has a proprietary interest in maintaining the confidentiality of its Confidential Information and further agrees not to, either during or after completion of the purpose for which the Confidential Information has been disclosed to it, disclose the Confidential Information unless required to by law, legal proceeding, or governmental rule or regulation or use the Confidential Information for any purpose other than the purposes stated herein.
3. The Receiving Party shall:
 - a. Limit the disclosure of the Confidential Information in its organization to those of its officers and employees to whom such disclosure is necessary to fulfill its obligations to the Disclosing Party;
 - b. Ensure that such officers and employees acknowledge that the information is confidential before it is imparted to them and ensure that such officers and employees are bound by obligations restricting use and disclosure of the Confidential Information equivalent to those set out in this Agreement;
 - c. Use best efforts to ensure that such officers and employees abide by such obligations; and,
 - d. Accept full liability for and indemnify the Disclosing Party (and its officers, directors, employees, agents and affiliates) against any wrongful disclosure or use of the Confidential Information by any of its officers and employees.
4. If either party hereto suggests ideas, concepts, plans or new information relating to product ideas ("New or Joint Ideas"), other than Confidential Information as defined above, the parties agree to the following:
 - a. If the New or Joint Ideas relate to the Core Product(s) of one party, then the other party shall assign all rights in the New or Joint Idea to the other party in exchange for a non-exclusive, no-

cost license to use the New or Joint Idea in connection with all other fields outside the field of the Core Products(s). For purpose of this Agreement, the Core Product of XXX is _____ and the Core Product of YYY is _____.

- b. If the New or Joint Ideas do not relate to the Core Product(s) of either party, then neither party shall own the New or Joint Ideas, and either party shall be free to use and disclose same without restriction and without any liability or compensation to the other party.

- 5. Each party hereto shall assume full and exclusive liability for the acts and omissions of itself, any agent or employee ("Indemnifying Party"), and shall indemnify and hold harmless the other party against any and all liability to third parties arising from or in connection with the negligence of the Indemnifying Party's employees, agents or subcontractors.

- 6. Unless the Disclosing Party has agreed otherwise in writing, upon completion of the purpose for which the Confidential Information has been disclosed, the Receiving Party shall return any and all materials which contain any Confidential Information including, but not limited to, all documents, plans, samples, drawings, specifications, notebooks, computer software and any other materials whatsoever and all copies made of them.

- 7. If the Receiving Party develops a product or a process which, in the opinion of the Disclosing Party, might have involved the use of any of the Confidential Information it shall, at the request of the Disclosing Party, promptly supply information reasonably necessary to establish that the Confidential Information has not been used or disclosed.

- 8. Each party agrees that the Disclosing Party is and shall remain the exclusive owner of its Confidential Information and all patent, copyright, trade secret, trademark and other intellectual property rights therein. No license or conveyance of any such rights to the Receiving Party is granted or implied under this Agreement.

- 9. Neither party shall advertise its association with the other in any manner, written, verbal or pictorial without the other party's prior written permission, except as may be necessary in order to fulfill the purpose of the business relationship between the parties.

- 10. This Agreement may not be changed or amended except in writing signed by the party to be bound. This Agreement and the legal relations between the parties shall be construed and determined in accordance with the laws of the State of ZZZ without regard to conflict of laws principles.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed.

XXX Company	YYY Company
x: _____	x: _____
Name: _____	Name: _____
Title: _____	Title: _____
Date: _____	Date: _____

BUSINESS ASSET PROTECTION AGREEMENT

This Agreement is entered into by XXX Company, and its successors or assigns ("Company"), and _____ ("Employee").

1. **Effective Date.** The Effective Date of this Agreement is as dated below. The parties acknowledge, however, that Proprietary Information was shared between the parties beginning with their first association. This Agreement applies to Proprietary Information shared between the parties beginning with their first association through and subsequent to the date of this Agreement.
2. **Proprietary Information.** Employee agrees during the term of this Agreement and thereafter to take all steps reasonably necessary to hold the Company's Proprietary Information in trust and confidence, and will not use Proprietary Information in any manner or for any purpose not expressly allowed by this Agreement, and will not disclose any Proprietary Information to any third party without first obtaining the Company's express written consent on a case-by-case basis. By way of illustration but not limitation "Proprietary Information" includes (a) trade secrets, inventions, mask works, ideas, processes, formulas, source and object codes, data, programs, other works of authorship, know-how, improvements, discoveries, developments, designs and techniques (hereinafter collectively referred to as "Inventions"); and (b) information regarding plans for research, development, new products, marketing and selling, business plans, budgets and unpublished financial statements, licenses, prices and costs, customer needs and usage, suppliers and customers; and (c) information regarding the skills and compensation of other employees of Company. Notwithstanding the other provisions of this Agreement, nothing received by Employee will be considered to be Company Proprietary Information if (1) it has been published or is otherwise readily available to the public other than by a breach of this Agreement; (2) it has been rightfully received by Employee from a third party without confidential limitations; (3) it has been independently developed for Employee without access to or use of the Company Proprietary Information; or (4) it was known to Employee prior to their development hereunder or first receipt from Company.
3. **Employee Inventions.** Employee acknowledges that as a result of his employment with the Company, he/she may have access to and be involved in the development of certain "Employee Inventions," which term means all inventions, technology, code, programs, ideas, processes, trade secrets, materials, and Confidential Information, whether or not published, patented, copyrighted, registered or suitable therefore, and all intellectual property rights therein, that are made, developed, written, conceived or first reduced to practice by him/her in part or in whole, whether alone or with others, during the term of his employment with the Company, to the extent they relate to the Company's past, present, future or anticipated business, research, development or trade, or are developed using the Company's time, equipment or materials. Employee acknowledges and agrees that all Employee Inventions are the sole and exclusive property of the Company, and hereby assigns to the Company any copyrights, patent rights, trade secrets and other rights that he may have therein. Employee agrees to promptly disclose the existence, use and manner of operation of any Employee Inventions to the Company. Employee agrees to take all actions reasonably requested by the Company, both during and after the term of my employment by the Company, to assign to the Company and to establish (including, without limitation, assisting in obtaining or registering copyrights, patents, trademarks or similar property rights and executing assignments to the Company), perfect, exercise or protect the Company's rights in any Employee Inventions or title thereto. If the Company is unable, because of Employee's mental or physical incapacity, geographic distance or for any other reason, to obtain his/her approval or signature on any document necessary or useful to claim, secure, extend, protect or enforce any right in intellectual property to which the Company has a reasonable claim, then Employee hereby appoints the Company and his/her duly authorized officers as my agent and attorney-in-fact to act for me and in my place and stead for the purpose of accomplishing such act with the same legal force and effect as if executed by Employee.

4. Third-Party Information. Employee understands that the Company has received and will in the future receive from third parties confidential or proprietary information ("Third Party Information") subject to a duty on the Company's part to maintain the confidentiality of such information and use it only for certain limited purposes. Employee agrees to hold Third Party Information in confidence and not to disclose to anyone (other than Company personnel who need to know such information in connection with their work for Company) or to use, except in connection with Employee's work for Company, Third Party Information unless expressly authorized in writing by an officer of Company.
5. No Conflict of Interest. Employee agrees during the term of employment not to accept work or enter into a contract or accept an obligation, inconsistent or incompatible with Employee's obligations under this Agreement or the scope of services rendered for Company. Employee warrants that to the best of his/her knowledge, there is no other existing contract or duty on Employee's part inconsistent with this Agreement. Employee further agrees not to disclose to Company, or bring onto Company's premises, or induce Company to use any confidential information that belongs to anyone other than Company.
6. Interference with Business. Employee acknowledges that as the Company's employee and agent, he/she has received from the Company, and has further developed, valuable good will, or relationships of trust and confidence with Company vendors, suppliers and customers and prospective customers. Employee acknowledges that this good will is an extremely valuable asset owned exclusively by the Company. Employee also acknowledges that any misappropriation of Company good will, or any pursuit of the activities forbidden by this Section 1.5, would necessarily involve the use or disclosure of Proprietary Information in breach of Section 1.1, and that proof of such breach would be extremely difficult. To forestall such disclosure, use, and breach, and to protect the Company's good will, Employee agrees that for the term of this Agreement and for a period of twenty-four (24) months after termination or expiration, Employee will not, for the benefit of Employee or any third party, directly or indirectly, within the territory where the Company did business during Employee's employment: (i) divert or attempt to divert from the Company (or any affiliate of it that might be formed) any business of any kind in which it is engaged, including, without limitation, the solicitation of or interference with any of its vendors, suppliers or customers, (ii) employ, solicit for employment, or recommend for employment any person employed by the Company or (iii) engage in any business activity that is competitive with the Company. Businesses competing with or otherwise similar to Basics' business are limited to those that design, develop, manufacture, import and/or sell Kitchen Products and Other Products that Back to Basics subsequently develops and markets within North America or any other countries in which the Company is selling its products.
7. Non-compete. Employee agrees that for a period of 24 months after the termination of this Agreement, he/she will not (without Company's prior written consent): (a) serve as a partner, employee, consultant, officer, director, manager, agent, associate, investor, or otherwise for, (b) directly or indirectly, own, purchase, organize or take preparatory steps for the organization of, or (c) build, design, finance, acquire, lease, operate, manage, invest in, work, act as a sourcing agent or consult for or otherwise affiliate with any business in competition with or otherwise similar to Company's business. Businesses in competition with or otherwise similar to Company's business are limited to those that (i) design, develop, manufacture, import and/or sell XXX Company Products (which are defined as products listed in Company's most current Wholesale Price List effective at the time of termination of this Agreement), excluding _____ that are generic and do not make use of Company's Proprietary Information, copyrights, or other intellectual property), (ii) design, develop, manufacture, export and/or broker XXX Company Products in or from countries where the Company has products manufactured, and/or (iii) design, develop, manufacture, import and/or sell products competing with specific products Company has licensed in territories worldwide to which the specific product is licensed.
8. Return of Company Property. Upon termination of the Agreement or earlier as requested by Company,

Employee will deliver to Company any and all drawings, notes, memoranda, specifications, devices, formulas, and documents, together with all copies thereof, and all other material containing or disclosing any Third Party Information or Proprietary Information of Company. Employee further agrees that any property situated on Company's premises and owned by Company, including computer, software, disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company personnel at any time with or without notice.

9. Governing Law. This Agreement will be governed and construed in accordance with the laws of the State of ZZZ as applied to transactions taking place wholly within ZZZ between ZZZ residents. Employee hereby expressly agrees that any dispute arising from or related to this Agreement shall be resolved exclusively in the state or federal courts located in AAA County, ZZZ, and Employee consents to the personal jurisdiction of those courts for any lawsuit filed there by the Company against Employee.
10. Severability. If any one or more of the provisions of this Agreement is, for any reason, held invalid, illegal or unenforceable in any respect, this does not affect the other provisions and this Agreement is to be construed as if the invalid, illegal or unenforceable provision had never existed.
11. No Assignment. The Company may assign this Agreement, but it cannot be assigned by Employee without the Company's consent.
12. Notices. All notices, requests and other communications under this Agreement must be in writing, and must be mailed by registered or certified mail, postage prepaid and return-receipt requested, confirmed facsimile, or delivered by hand to the party to whom such notice is required or permitted. If mailed, notice will be considered given five (5) business days after it mailing, as evidenced by the postmark. If delivered by hand, notice will be considered given when received by the party to whom notice is given, as evidenced by written and dated receipt of the receiving party. The mailing address for notice to either party will be the address shown on the signature page of this Agreement. Either party may change its mailing address by notice as provided by this section.
13. Legal Fees. If any dispute arises between the parties with respect to the matters covered by this Agreement which leads to a proceeding to resolve the dispute, the prevailing party shall be entitled to receive its reasonable attorneys' fees, expert witness fees, and out-of-pocket costs incurred, in addition to any other relief it may be awarded.
14. Injunctive Relief. Any actual or threatened unauthorized use or disclosure of Proprietary Information, and any actual or threatened misappropriation of the Company's good will in violation of this Agreement, will cause irreparable and continuing harm to the Company, which harm cannot be adequately remedied by money damages or other remedy at law. Employee acknowledges that, to prevent such harm to the Company, the Company shall be entitled to temporary, preliminary and permanent injunctive relief as well as such other and further relief as may be appropriate. Employee acknowledges that the terms and restrictions of this Agreement are reasonable and necessary to protect legitimate business interests of the Company, including Company Proprietary Information and good will. Employee knowingly and intentionally waives any claim that irreparable harm will not occur to the Company because of Employee's actual or threatened breach of this Agreement, and Employee shall not assert such a claim in any action where the Company seeks to enforce the terms of this Agreement. Employee agrees to disgorge to the Company immediately upon the Company's demand, all money he receives in connection with any act that violates any term of this Agreement.
15. Survival. The provisions of this Agreement will survive termination or expiration of this Agreement.
16. Waiver. No waiver by a party of any breach of this Agreement is a waiver of any preceding or succeeding breach. No waiver by the Company of any right under this Agreement will be construed as a

waiver of any other right. Neither party is required to give notice to enforce strict adherence to all terms of this Agreement.

17. Entire Agreement. This Agreement is the final, complete and exclusive agreement of the parties with respect to the subject matter hereof and supersedes and merges all prior discussions between us. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing and signed by the party to be charged.

EMPLOYEE**COMPANY**

X: _____	X: _____
Name: _____	Name: _____
Date: _____	Title: _____
Address: _____	Date: _____
	Address: _____

Valuation and Pricing of Intangible Assets and Intellectual Properties

Joan M. Lebow

General Counsel, Corporate Secretary
ibex, a Picis company

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Scope

- Categories of IP to be reviewed
 - Technology
 - Data Processing
- Contribution of corporate counsel to process of valuation and pricing is key
 - Affirmative: lifetime of assets known via external exploitation of commercial transactional data as available.
 - Negative: analysis and interpretation of changing legal and judicial environment, foreign and domestic legal challenges and compliance costs

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Degree of confidence in predictable economic performance of new IP

- Architecture of ownership interests
 - Rights
 - Privileges
 - Conditions
 - Royalties
 - Earn outs
- Contingencies and Limitations
 - Competitors Claims to Ownership
 - Regulatory compliance cost

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Commercially Standard Approaches to Valuation

- Reproduction/replacement cost method
- Utility and Substitution
- Market Efficient
- Supply/Demand
- Value measured in economic not accounting terms
- Unlikely to use when unique IP on offer and no reasonable substitute in market

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Reproduction/Replacement Cost

- Reproductive Cost adjusted by obsolescence

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Market Method

- Current market conditions judged by empirical transactional data.
- Often no comparable transaction data available for innovative IP
- Use of guideline transactional data based on reliable sources
- Public Filings
- Arms length transactions must be verified

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Income Method

- Earnings expected measured by rate of return on investment
- Income approaches are grouped into
 - Incremental
 - Detrimental
 - Relief from hypothetical royalty payments
 - Overall business enterprise value
 - Residual from business enterprise value

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Cost Method Applied to Software IP

- Trended historical Cost Method includes developer's profit
 - Allowance for entrepreneurial incentive
 - Direct costs in salaries, wages
 - Indirect costs, administrative etc.
- Software engineering model method
 - metrics of lines of code

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Income Method Applied to Software IP

Discounted cash flow

- Projected revenues, expenses excluding depreciation, amortization and capital invested over normal life

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Market Method applied to Software IP

Market Transaction Method implies a value per line of code

- Market replacement using hypothetical development proposals.

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Pricing Methodologies

When I only had one watch, I always knew what time it was. Now I have two watches and never know the time.

- Search for coherence without regard to cost of production, research

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Case Studies

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