A Prism *Primer*

Protecting Intellectual Property

F. Andrew Anderson

Recent news items underscore the effective use of intellectual property to protect and enhance an organization's competitive position:

• L'Eggs, the leading producer of pantyhose, obtains an injunction prohibiting a competitor, Kayser-Roth, from marketing its No Nonsense pantyhose in similar packaging.

• Lotus succeeds in halting Paperback Software's sale of its VP-Planner program and Borland's version of its Quattro program because both programs' user interfaces are similar to that of the Lotus 1-2-3 spreadsheet program.

• The inventors of a board game are awarded damages of more than $700,000 against Milton Bradley for unauthorized use of their game.

• Honeywell, the owner of a patented technology for autofocusing, obtains a $96 million patent infringement judgment against Minolta.

• Iowa State University Research Foundation announces that several facsimile machine manufacturers have agreed to pay $18 million for infringement of a patent.

Despite the critical importance of intellectual property, few companies really understand what it is, how various laws and regulations work to protect it, what pitfalls await the unwary, and what steps managers should take to safeguard their firms' interests.

What Intellectual Property Is

An organization's intellectual property is its legally protectible intangible assets. The most common categories of intellectual property are patents, copyrights, trademarks, and trade secrets. While each type of right is distinct, they all give the owner of the property, in effect, a legal monopoly:

• A *patent* holder can prevent anyone from making or selling anything that falls within the claims of the patent.

• A *copyright* owner can prevent the copying or creating of works derived from the copyrighted work.

• A *trademark* provides the right to prevent the use of a confusingly similar name or design.

• The owner of a *trade secret* can prevent its use or disclosure by unauthorized persons.

By developing and implementing specific protection policies, organizations not only can defend these assets (i.e., prevent others from using them) but often can use them effectively to enhance their business. Strong patents can help a company enter into strategic partnerships with companies that have complementary capabilities; examples include the common partnering arrangements between biotechnology and pharmaceutical companies. Copyright is the principal basis for a number of worldwide software distribution programs, such as those of Microsoft and Lotus. Similarly, the owner of a distinctive trademark can grant royalty-bearing licenses, as in franchising, of which McDonald's and Dunkin' Donuts are prominent examples.

The Role of Government

Most countries recognize and enforce intellectual property rights in order to encourage innovation by giving creative people the exclusive right to the use of their intellectual efforts. In some cases, as in patent law, the monopoly is for a limited time (17-20 years in most countries). In the case of trademarks or trade secrets, the right can last indefinitely. For example, the first trademark registered under English law (in 1876), the Bass Pale Ale label with a solid red triangle, is still in active use, and the formula for Coca-Cola has been effectively retained as a trade secret for more than 100 years.

Efforts to undermine the exclusive nature of intellectual property rights, however well-intentioned, have generally proved counterproductive. Until the U.S. government permitted universities that developed inventions with government funds to hold title to these inventions and to grant exclusive licenses under them, there was very little industrial interest in these inventions. After the law was amended, in the early 1980s, university patenting increased by 500 percent. A large number of those patents have been licensed to industry. Similarly, developing countries that once offered little protection for intellectual property often found themselves cut off from the latest technological developments, as well as subject to trade sanctions.

Today there is an overwhelming trend toward strong protection for intellectual property rights in all countries, with increasingly similar principles of law being applied. Furthermore, intellectual property protection has

become a significant issue in international trade negotiations. For example, the United States and other countries have exerted diplomatic pressure to reduce illicit activities in formerly notorious counterfeiting havens such as Singapore.

There are also major efforts under way to ease formalities and to harmonize the scope of protection between countries and across regions. The European Community has issued a number of directives requiring member states to align their intellectual property laws in matters involving patents, copyrights, computer software, and trademarks. The United States has also been taking steps to modify its intellectual property laws to conform more closely to standards prevailing in other countries. For example, in 1989, the United States joined the Berne Copyright Convention, enabling U.S. authors to enjoy copyright protection in the 80-plus countries that are already members of the Convention. Simultaneously, the United States eliminated certain formalities that had been unique to U.S. copyright law, such as the mandatory use of a copyright notice.

Pitfalls

Despite these highly favorable trends, the protection and exploitation of intellectual property rights is a complex field, posing a number of pitfalls for the unwary. For example, under U.S. copyright law, when a company commissions a nonemployee to create a copyrightable work and pays for it in full, the copyright in the work belongs to the nonemployee unless he or she formally assigns his or her rights away. Because this law is so counterintuitive, it is not widely understood, even in the software industry, which commonly uses independent programmers.

In the international arena, further problems can arise, even for companies that have a reasonable understanding of their own domestic intellectual property principles. In the United States, for example, trademark rights are based on priority of *use* of a mark; in many other countries, what matters is priority of *registration.* As a result, a number of U.S. companies have begun doing business in foreign countries only to discover that someone else has registered their own trademarks. They are then forced either to change their marks or to pay a substantial ransom to get them back.

For example, during the 1992 Summer Olympics, the American company Nike was ordered by a Spanish court to cease advertising or selling its apparel in Spain. According to press reports, the case was brought on behalf of a former Nike distributor who had discovered and purchased a 1932 Spanish registration for the name „Nike," which had apparently been used only for socks. The former distributor demanded that Nike pay it $30 million for the right to use its own famous mark.

Also, whereas under U.S. patent law an inventor has up to one year to file an application following first publication or sale of the invention, most countries have no such grace period. Failure to file, even in the United States, *before* any publication or sale of an invention can be fatal to non-U.S. patents.

The importance of protecting your rights internationally cannot be overstated. Not only do the details of registration and other formalities vary from country to country, but numerous legal requirements in other countries have no U.S. counterparts. In the European Community, for example, under a recent directive, reverse engineering of software for purposes of interoperability with hardware or other software is expressly permitted, despite a license agreement to the contrary. In many countries (Brazil, for instance) licenses and other documentation for end-users must be in the local language to be enforceable. Of course, care must be taken to ensure that a name does not have an unintended meaning in the local language (the name of Chevrolet's „Nova" translates roughly as „doesn't work" in Spanish!). And a number of countries (for example, Japan and South Korea) require formal governmental approval of certain transactions involving use of intellectual property rights, while the European Community sets limits on exclusivity and other terms of intellectual property licensing.

Finally, while it is often possible to use multiple forms of protection, some types of protection are mutually exclusive, such as patents (which are public documents) and trade secrets (which must be retained as secrets to be protectible).

Safeguarding Your Intellectual Property

How can an organization ensure that its intellectual assets are appropriately protected? There are four basic steps: conduct an audit, assess your protection, design a program, and implement the program.

Conduct an audit. An intellectual property audit determines what intellectual property assets you have (or could have by taking appropriate steps). Such an audit can be a significant undertaking in terms of both time and expense, since many companies are not fully aware of the breadth of their assets, especially in the area of trademarks. The audit should include:

• *Patents and patent applications, domestic and international.* Do not just list these properties, but specify the status of maintenance and other fees, which can be substantial. Many countries require both initial fees and periodic maintenance fees, which increase over time.

• *Trademarks, domestic and international.* Include logos, distinctive packaging, and „trade dress“ (such as Kodak yellow film packaging). Assess whether the marks reflect a coherent overall approach. Determine whether registrations have been obtained in all relevant markets.

• *Copyrightable works.* Include marketing literature, artwork, manuals, computer software, databases, films, recordings, and similar materials. Determine whether copyright notices have been used and whether U.S. registrations have been obtained.

• *Trade secrets.* Sometimes a company has specific trade secrets, such as the Coca-Cola formula. In most companies, however, trade secrets are identifiable only by their general nature, such as computer software source code. The internal measures used to protect trade secrets should be identified.

• *Agreements with employees and contractors.* Forms of agreements with employees should be reviewed to ensure that all appropriate intellectual property is assigned to the organization; in some cases, it may be appropriate to add noncompetition provisions.

• *Agreements with third parties.* Licenses, confidentiality agreements, distribution agreements, terms and conditions of sale, and other documents that involve the organization's intellectual property in the context of relationships with others should be reviewed not only for adequacy, but for consistency. Many forms of intellectual property protection can be supplemented and/or limited by contract.

Assess your protection. Using the audit as a starting point, *assess* the adequacy of your intellectual property protection in consultation with professional advisors. One issue to watch for is whether the organization's trademarks are *distinctive* and *correctly* used; improper trademark use can cause a mark to become generic and available to anyone, including competitors. „Aspirin“ and „escalator“ were victims of this problem.

Another concern is whether the organization's agreements with third parties who have developed intellectual property for the company are legally sound; if not, there will be a risk of future claims that the company does not own its intellectual property.

Design a program. Decide what the organization's intellectual property protection program should consist of and develop policies for implementing it. The specifics of these policies will, of course, vary widely, but they should generally include a trade secret program, a trademark and copyright guide, and employee agreements. In many cases, the policies may include revised forms of licenses, distribution agreements, and terms and conditions of sale. Budgetary constraints need to be carefully weighed against established strategic priorities and a solid understanding of the risks of not proceeding. While some forms of protection (such as patents and, to a lesser degree, trademarks) can be quite expensive, especially if you seek extensive international protection, other forms of protection (such as copyright and trade secrecy) are relatively inexpensive if you take appropriate administrative steps.

A company's choice of forms of protection may require strategic decisions. In the software field, for example, copyright may not prevent reverse engineering in many countries, while trade secrecy may be difficult to maintain in a widely marketed product. Because patents become public documents when granted, some companies choose to protect inventions as trade secrets rather than patent them, especially when infringers would be difficult to detect – but they run the risk that the secret will be discovered, leaving them unprotected.

Implement the program. Finally, implement the intellectual property protection program by distributing written policies throughout the organization. Since intellectual property is by its nature constantly evolving, responsibility for the program should to be assigned to people who can implement it aggressively but flexibly. Some organizations provide incentives for the issuance of patents, to ensure that potentially patentable inventions are brought to their attention. The program should include employee education to ensure that the whole organization recognizes the importance of intellectual property and that creative ideas that may be protectible are brought to the attention of the appropriate people.

The process outlined above can help an organization lay a foundation for solid protection of intellectual property rights. Once this is done, the organization will be prepared to use intellectual property actively, both in defense of its rights and in support of its goals.

F. Andrew Anderson is a partner in the Business Law Department of the Boston law firm of Palmer & Dodge and chairman of the firm's Intellectual Property Group. His practice focuses on. legal issues related to the protection and exploitation of technology.