Delaware Banker

Fall 2011
Vol 7. No. 4

Capitalizing on Innovation

The Fundamentals of Intellectual Property

Cover Story

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Intellectual Property Fundamentals

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Economists have estimated that two-thirds of the value of large businesses in the United States can be traced to intangible assets, including intellectual property (IP). Even for smaller businesses, IP will likely form at least a part —if not a significant part —of the overall value of a business. Intellectual property encompasses several distinct types of "mental products," and exclusive rights are recognized under the law to help protect IP. Business owners and managers are well advised to understand how IP impacts the business, how to protect it, and how it can be used to add value. A starting point is to understand the types of IP and how they fit together.

Ideas and Expressions

IP can take the form of ideas, as well as manifestations of those ideas, that is, "expressions." Ideas include concepts, innovations, "know-how," inventions, and the like. Exclusive rights in ideas are conferred by patent or trade secret. Expressions include works fixed in a tangible medium, such as a written work, artwork, dramatic work, or music. The tangible media can include physical or electronic media, performance or sound recordings. Exclusive rights in expressions are conferred by copyright.

Copyright law explicitly excludes protection of ideas. This exclusion is sometimes referred to as the "idea – expression dichotomy."

To illustrate the principle, suppose someone, a nutritional consultant for instance, develops a new formula for a healthy energy drink and publishes an article that lists the formula's ingredients. A competitor reads the article and introduces the formula into his own practice, even going so far as to post the article on his website. What remedy does the consultant have to prevent this? Under copyright law, she can prevent the competitor from posting the article she wrote, but she cannot prevent the competitor from using the formula, i.e., the idea, that is described in the article. Unless protected by patent, that formula has now become part of the public domain.

The energy drink example illustrates another important aspect of IP law: different forms of IP protection can be used to exclude competitors. Suppose the consultant has obtained a patent on her energy drink formula. She can then use the patent laws to prevent her competitor from making, using or selling the formula, and she can use the copyright laws to prevent that competitor from making copies of the published article.

Copyrights and Patents

Patent and copyright rights arise under federal law. Both systems find their roots in the Constitution, which provides: "The Congress shall have Power To . . . promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . ." As the Supreme Court has explained, "[T]he economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'"

The copyright system encourages creation and sharing of original works by providing certain exclusive rights to authors, namely, the right to keep others from reproducing (copying), preparing derivative works of, distributing, publicly performing, publicly displaying or publicly transmitting the copyrighted work in the United States, for a fixed term. The quid pro quo of the patent system is the requirement for public disclosure of an invention in exchange for exclusive rights for a limited time – currently twenty years from the date of filing an application for patent. Those rights include the right to keep others from making, using, selling, offering for sale or importing the patented invention or its equivalents.

Copyright rights typically attach to a work as soon as it is created, i.e., fixed in a tangible medium. No further action is needed for an original work to be protected by copyright. However, registration of a work with the U.S. Copyright Office offers numerous advantages and is required prior to bringing an action for copyright infringement. Registering a work is a simple procedure, requiring only administrative information, a fee and a deposit of a copy of the work. The copyright registration is examined only for those formalities, not for any substantive requirements, such as originality of the work. If the formalities are in order, a certificate of copyright registration is issued.

Unlike copyrights, patents can be obtained only by filing an application for patent with the U.S. Patent and Trademark Office (USPTO). To qualify for patent, the invention must be new, useful and unobvious. The description of the invention must also meet specific requirements for detail and clarity. A USPTO patent examiner examines each patent application to determine whether it meets all statutory requirements. The examination process is rigorous, typically involving several rounds of negotiation between the patent applicant and the patent examiner. If the statutory requirements are not met, the application is rejected.

Thus, the process of obtaining a patent can be costly and protracted, with no guarantee that a patent will be granted. Furthermore, the patent may expire long before the value of the patented technology wanes. An innovator should therefore consider whether the quid pro quo afforded by the patent system, i.e., public disclosure in exchange for twenty years of exclusivity, is the best value obtainable for an invention. It may make more sense to maintain an invention as proprietary information and use it forever, as long as it can be kept secret. If the latter route is chosen, then steps must be taken to preserve the proprietary nature of the innovation or invention as a trade secret.

Trade Secrets

Trade secret rights arise under state law, though most states have adopted the Uniform Trade Secrets Act (USTA), which provides some consistency. Under the USTA, a trade secret is defined in part as information that: (i) derives independent economic value from not being generally known to or ascertainable by proper means, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. If reasonable steps are taken to maintain information as a trade secret, then anyone who obtains the trade secret through improper means, such as theft or misrepresentation, is liable for misappropriation of the trade secret. However, if a trade secret is acquired by proper means, such as by independent invention or reverse engineering, the trade secret holder has no recourse under trade secret law.

Patents and trade secrets can be used together to protect a company's innovations. For instance, suppose the nutritional consultant improves the basic formulation for her energy drink by adding ingredients that extend its shelf life and make it taste better. The basic formulation is patented, keeping competitors from making infringing products for twenty years. But the

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improvements have not been patented or publicly disclosed, and turn out to be essential to the commercial success of the beverage. Hence, the improvements can be maintained as a trade secret for as long as they can be kept secret, perhaps significantly longer than twenty years. In that case, even when the patent expires and competitors are free to use the basic formula, they will not be able to re-create exactly the consultant's beverage because they will not know the "secret ingredients."

Trademark and Trade Dress

IP also includes tools for branding and name recognition of products or services. Exclusive rights to these tools arise as trademarks or trade dress, and are governed by both state and federal law, though the latter provides the main source of protection. Trademark rights include, among other rights, the right to prevent others from using the owner's marks or trade dress, or any similar marks or trade dress likely to cause confusion or mistake, or to deceive the public as to the source of the goods or services sold under the mark.

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Trademarks and trade dress operate as a sort of mental code in that they enable consumers to quickly identify the source of a particular product or service. For instance, a quick survey of a supermarket shelf will enable a consumer to identify a particular brand, e.g., Coca-Cola, by its distinctive trademark, logo, and even bottle shape, from among the numerous other soft drinks that line the shelf.

A trademark for products, or a service mark for services (collectively a "mark") is a word, phrase, symbol and/or design that distinguishes the source of the goods or services of one party from those of others. Trademark protection can extend beyond words and symbols to include other aspects of a product, such as its color or the shape and style of its packaging or display. These additional features are called "trade dress." Trade dress can be protected and may even be registered in accordance with state and federal trademark law, if consumers associate the feature with a particular manufacturer.

To merit trademark protection, a mark must be distinctive, i.e., capable of identifying the source of a particular good. Distinctiveness of a mark is determined at two levels: (1) the mark is inherently distinctive, and/or (2) the mark has been used in commerce long enough that the public readily identifies the mark as connected with a particular source of goods. Inherent distinctiveness is judged on a continuum ranging from "arbitrary or fanciful" to "suggestive," both of which are considered inherently distinctive, to "descriptive," which must acquire distinctiveness over time, and "generic," which cannot be protected by trademark.

Trademark rights arise from use of a mark in commerce. Nothing more than use is required to acquire trademark rights in a mark. Moreover, those rights increase with continued use. For instance, an initially descriptive term can become distinctive with continued use over time, as the public becomes accustomed to associating the term with a source of the goods or services.

Though not required, federal registration of a mark offers several benefits, including public notice of the claim of ownership of the mark and the right to use the ® designation, presumption of ownership and exclusive right to use the mark nationwide, and the ability to bring an action in federal court. Unlike copyright registrations, applications for federal registration of trademarks are substantively examined by trademark examining attorneys at the USPTO. The mark will be examined to determine if it meets the statutory requirements for registration and can be refused for a variety of reasons. Also distinct from both patents and copyrights, trademark rights do not expire, as long the mark is used continuously in commerce as a trademark, i.e., to identify the goods or services of a particular provider.

To illustrate how trademarks and trade dress operate to add value to a business or product line, let us return to the nutritional consultant and her energy drink. Having perfected the flavor and stability of the beverage, the consultant is ready to launch it commercially. She has created "branding" tools for the product: the name "Green Fuel," suggestive of the product's color and health effects, and a unique package and shelf display for the product. The consultant can apply for federal trademark registration of those tools, but even if she does not, trademark rights begin to accumulate the moment she begins to use them in commerce. Over time, both tools

can come to identify and distinguish the product from those of others, even if they were not distinctive at the outset. Competitors will be foreclosed from using confusingly similar branding tools, which will complement and add to the sphere of exclusivity already afforded by the consultant's patents, trade secrets and copyrights.

Conclusion

As the business environment becomes increasingly competitive, it is important to the survival and health of a company to extract the maximum value out of innovation at every level. By understanding the basic elements of IP and how they interrelate, savvy business owners can exploit these exclusive rights in a variety of ways to add value to their companies.

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