

# **ENHANCING SHAREHOLDER VALUE THROUGH INTELLECTUAL PROPERTY**

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# ENHANCING SHAREHOLDER VALUE THROUGH INTELLECTUAL PROPERTY

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## 1. Introduction

Ten years ago, the buzz among business graduates seemed to be “branding” and how important branding of products and services is to the success of a business. The buzz today is about “intellectual property”, particularly “patents”. Now more than ever, intellectual property provides a key tool for helping business men and women enhance the value of their businesses. This paper attempts to provide an overview of what the intellectual property buzz is all about and how a company can use intellectual property to enhance the shareholder value of a business today.

## 2. What the Intellectual Property Buzz Is All About

In the 1950s and 1960s, companies used high production manufacturing systems to enhance shareholder value. In the 1970s, the focus turned to finance and economics. In the 1980’s, innovative marketing initiatives and global business expansion became the new tools of corporate management. In the 1990’s, management turned to technology and quality systems to expand their business. Today, intellectual property – namely, the rights associated with the development, protection and exploitation of innovation – provides managers with an effective tool for building and expanding a business.<sup>2</sup>

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<sup>1</sup> The author has been a practicing patent attorney for over 20 years, beginning his career at Pennie & Edmonds in New York and continuing on to work at such companies as W.R. Grace, International Paper, Timex, Nokia, Symbol Technologies and Flextronics before joining the law firm of Williams, Morgan & Amerson where he is a partner. The author practices in all facets of intellectual property litigation, counseling, licensing, and prosecution. More particulars on his practice can be found at [www.wmalaw.com](http://www.wmalaw.com). This paper represents the views and analysis of the author alone and not of Williams, Morgan & Amerson or any company. The author thanks Danny L. Williams of Williams, Morgan & Amerson for reviewing this paper and providing valuable feedback.

<sup>2</sup> “Intellectual Property is a CEO Thing”, ipFrontline, Andy Gibbs (former member of the USPTO Public Advisory Committee), March 5, 2001.

Why has intellectual property become such an important business tool today? The fact of the matter is that since before the first U.S. patent issued on July 31, 1790 intellectual property has always been important.<sup>3</sup>

The importance of intellectual property was not lost on our U.S. Presidents. President George Washington, by some counts, received a patent on a sowing device.<sup>4</sup> In 1772, President Washington also received a trademark for flour.<sup>5</sup> President Thomas Jefferson was an accomplished innovator with such inventions to his name as a metal plow and a macaroni making machine.<sup>6</sup> President Abraham Lincoln, who was awarded a patent – by other counts the first patent ever issued to a U.S. President<sup>7</sup> - called the introduction of patent laws one of the three most important developments “in the world’s history”, along with the discovery of America and the perfection of printing.<sup>8</sup>

Nor, since the recognition of intellectual property as protectable assets, has the importance of intellectual property been lost on big business. In terms of brand recognition, in 2007, Google surpassed Microsoft as the most powerful brand. With a brand value of \$66.4 billion, more than 40% of Google’s \$149 billion stock market capitalization can be traced to the Google brand.<sup>9 10</sup> In a 2004 report, the copyright

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<sup>3</sup> On July 31, 1790, the first patent issued to Samuel Hopkins of Philadelphia for a cleaning formula used in soap making. See, <http://www.uspto.gov/web/offices/ac/ahrpa/opa/kids/kidprimer.html>

<sup>4</sup> See <http://www.adec.edu/clemson/papers/campbell-chapter1.html> referencing Campbell, John R. *Reclaiming a Lost Heritage: Land-Grant and Other Higher Education Initiatives for the Twenty-first Century*, Ames: Iowa State University Press, 1995; see also *Mechanics of Patent Claim Drafting*, John L. Landis, 2<sup>nd</sup> Ed., Practising Law Institute, 1974.

<sup>5</sup> See, [http://stconsultant.blogspot.com/2007\\_02\\_01\\_archive.html](http://stconsultant.blogspot.com/2007_02_01_archive.html), John Daly PhD (former Agency of International Development), February 19, 2007; see also “Invention Mysteries: The Little-Known Stories Behind Well-Known Inventions”, Paul Niemann, Nov, 2004

<sup>6</sup> See <http://inventors.about.com/library/inventors/bljefferson.htm>

<sup>7</sup> On May 22, 1849, President Lincoln was issued Patent # 6,469 for “*A Device for Buoying Vessels Over Shoals*”. Abraham Lincoln was a legislator in Illinois at the time of the patent grant. See [http://inventors.about.com/od/lstartinventors/a/Abraham\\_Lincoln.htm](http://inventors.about.com/od/lstartinventors/a/Abraham_Lincoln.htm)

<sup>8</sup> See footnote 7.

<sup>9</sup> “Google Surpasses Microsoft As Most Powerful Brand”, Thomas Claburn, EE Times, April 24, 2007.

<sup>10</sup> Following Google’s brand value of \$66.4 billion is: General Electric (\$61.9 billion), Microsoft (\$54.9 billion), Coca-Cola (\$44.1 billion), China Mobile (\$41.2 billion), Marlboro/Altria (\$39.2 billion), Wal-Mart (\$36.9 billion), Citigroup (\$33.7 billion), IBM (\$33.6 billion), and Toyota (\$33.4 billion). See footnote 8.

industries business of \$600 billion alone accounted for six percent of the U.S. GDP.<sup>11</sup> With patent-intensive pharmaceutical and computer industries added to the mix – but still excluding financial services and equipment makers - , these combined industries accounted for 9.2 percent of the U.S. GDP.<sup>12</sup>

There is a direct correlation between innovation and business growth. In 2005, U.S. intellectual property was valued at between \$5 trillion and \$5.5 trillion, equal to about 45% of U.S. gross domestic product (GDP) and greater than the GDP of any other nation.<sup>13 14</sup> According to a 2004 study by the Federal Reserve System, U.S. companies were investing about as much in idea-related intangibles as they were spending plant, equipment, and other tangible forms of investment.<sup>15</sup> About \$1 trillion a year was being spent on idea-related intangibles including software, R&D costs to develop products subject to patents, licenses and copyrights, and advertising and market research spending to create brands.<sup>16</sup> According to the same study, more than 80% of the gains in the growth rate of U.S. productivity in the latter 1990's was due to the development and application of new ideas.<sup>17</sup> By extrapolation, new ideas accounted for nearly 90% of the growth rate between 2001 and 2003.<sup>18</sup>

The increase of patent filings with the U.S. Patent Office reinforces the existence of this correlation. Table 1 shows the patent issue number and date of issuance. After the issuance of the first U.S. patent on July 31, 1790, more than 121 years would pass before the USPTO would issue its one millionth patent. It would take about a *fifth* of that time both before the issuance of the second millionth patent (about 24 years) and the third

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<sup>11</sup> "Copyright Industries in the U.S. Economy, The 2004 Report," Stephen Siwek, Economists Incorporated, October 2004.

<sup>12</sup> The Economic Value of Intellectual Property, R. J. Shaparo and K. A. Hasset, Oct. 2005.

<sup>13</sup> See footnote 12.

<sup>14</sup> This is no longer the case with respect to China. In 2006, the estimated GDP of China is \$10.17 trillion est. See <https://www.cia.gov/library/publications/the-world-factbook/print/ch.html>.

<sup>15</sup> Carol Corrado, Charles Hulten, Daniel Sichel, "Measuring Capital and Technology: An Expanded Framework," Federal Reserve Board, Finance and Economics Discussion Series, No. 2004-65, August 2004. See also, footnote 12.

<sup>16</sup> See footnote 15.

<sup>17</sup> Between 1995 and 2001, 28% was due to the development of new information technologies, 34% due to capital investment in those technologies; 10% due to R&D and 10% due to worker efficiency innovations. See footnote 12.

<sup>18</sup> See footnote 12.

millionth patent (about 26 years). It would take about an *eighth* of that time both before the issuance of the four millionth patent (about 15 years) and the five millionth patent (about 15 years). The current rate for patent filings is about a million filings per seven years (it took about eight years for the six millionth patent to issue and seven years for the seven millionth patent to issue). These statistics show the U.S. Patent Office issuing seventeen times as many patents today for every patent the USPTO issued during its first 121 years as an office.<sup>19</sup>

Patent Number	Issue Year
1	Jul 31, 1790
1,000,000	Aug 8, 1911
2,000,000	Apr 30, 1935
3,000,000	Sep 12, 1961
4,000,000	Dec 28, 1976
5,000,000	Mar 19, 1991
6,000,000	Dec 7, 1999
7,000,000	Feb 14, 2006

Table 1. Data taken from USPTO Website

Further corroborating the existence of this correlation between intellectual property and economic value are the high stakes that have come to be known in patent litigation today. Table 2 shows a listing of the top awards and settlements resulting from patent litigation in 2006. In 2006, Defendant Research in Motion (RIM), the makers of the Blackberry® handset paid \$613M to NTP to settle a patent lawsuit after a jury found RIM to infringe a patent held by NTP. Also in 2006, Tyco International paid Masimo Corp. \$330M and Nokia paid InterDigital Comm. Corp. \$253M as a result of patent litigation. The potential return on intellectual property investments can be staggering. Which is why the buzz in the business world today is about intellectual property, particularly patents.

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<sup>19</sup> The USPTO is issuing a million patents today in about one-seventeenth of the time it took the USPTO to issue its first million patents (i.e., 121 years).

### Patent value – 2006 Litigation awards/settlements

Count	Date	Defendant	Plaintiff	Amount (US\$M)
1	3/1/2006	Research in Motion	NTP	613
2	1/24/2006	Tyco International	Masimo Corp	330
3	4/27/2006	Nokia	InterDigital Comm. Corp	253
4	2/7/2006	Mosanto	Reagents, Univ. of Calif.	200
5	7/28/2006	Hynix	Rambus	133
6	9/6/2006	Samsung	InterDigital Comm. Corp	134
7	4/19/2006	Microsoft,Autodesk	Z4 Technologies	133
8	7/12/2006	Alcon Inc.	Advanced Medical Optics	121
9	7/7/2006	Direct TV	Finisar Corp	115.9
10	8/28/2006	ABC/NBC/CBS/Fox	Echostar Comm.	100
11	8/24/2006	Apple	Creative	100
12	1/26/2006	Media Tek Inc.	Zoran Corp.	85
13	9/6/2006	Start Licensing	Advanced Cell Technology Inc	80
14	7/27/2006	Microsoft	Lee Keung-hae	75
15	12/5/2006	Medtronic	Dr. Eckhard Alt	75
16	4/14/2006	Echostar Comm.	Tivo	74
17	5/5/2006	Conexant Systems	Texas Instruments	70
18	7/21/2006	Teva Pharmaceutical Ind.	Pfizer	70
19	5/31/2006	Eli-Lilly	Ariad Technologies	65.2
20	1/24/2006	Tyco International	Applied Medical Resources	64.5
21	9/15/2006	Zebra Technologies Corp	Paxar	63
22	7/24/2006	Boston Comm. Group	Freedom Wireless	55.3
23	7/22/2006	Chunghwa Picture Tubes	LG Philips LCD Co.	53.5
24	10/6/2006	Thomson Financial	MuniAuction	38.4
25	1/23/2006	Medtronic	Edward Lifesciences Corp	37.5
<b>Total</b>				<b>3,139.3</b>

Table 2. 2006 Patent Litigation Awards/Settlement.<sup>20</sup>

### 3. What Is Intellectual Property

Intellectual Property (“IP”) is a property right in a product that is formed in the mind. The intellectual product or work can be an idea, invention, trade secret, process, program, data, formula, artistic expression or trade or service mark or other creative work. The property right can be in the form of a patent, copyright, trademark, trade dress, trade secret, or some other form of IP. Each form of IP provides a different shroud of protection to the intellectual product.

<sup>20</sup> U.S. Patent Values Decline in 2006, A.T. Gomes and T. George, Intellectual Property Asset Management, Feb/Mar 2007, pp. 12-13.

The shroud of protection provided by each form of IP is defined by laws. Because IP protection is grounded in property rights, the shroud of protection provided by IP is a bundle of property rights. These rights are "property" rights in the sense that they are based on the legal right to exclude others from using the property and in that ownership of the rights can be transferred. As such, the bundle of property rights includes the right to own and sell and to exclude others from using the intellectual product.

To visualize the bundle of property rights that come from owning IP, a comparison of IP rights to the bundle of rights that come from owning a house is helpful. Table 1 contrasts those bundles of rights and the remainder of this paper addresses each of these rights for each of the major forms of IP.

Property Type	Real Property	Personal Property				
		Tangible	Intangible			
	House	Car	Patent	Copyright	Trademark	Trade secret
Title Evidence of Ownership	Guarantee Deed  Simple Deed  Quitclaim Deed	Car Title	Issued Patent	Registration or Unregistered Copyright Documentation	Registration or Unregistered Trademark Use Documentation	Trade Secret Documentation
Right to Own	Right to Own	Right to Own	Right to Own	Right to Own	Right to Own	Right to Own
Duration of Ownership	Unlimited duration	Unlimited duration	Utility and Plant - 20 years from date of filing  Design – 14 years from date of issue  Plant variety protection certificate - - 20 years from date of issue	Federal Registration - - For Work created on or after January 1, 1978  Life plus 70 years  Or  Shorter of 95 years or 120 years from creation if anonymous work (e.g., work for hire) or under pseudonym	Federal registration - - initially ten years, provided that an affidavit of continued use is filed in the sixth year. Thereafter, renewable for any number of successive ten-year terms provided that the mark is still in use in commerce as evidenced by an affidavit filed in the tenth year.  State Registrations - - varies from state to state. Common law - - for so long as use of the trademark continues.	For so long as it remains a trade secret
Scope of Property	Meets and Bounds Defined in Deed	Vehicle Identification in Bill of Sale	Scope of Claims of Patent	Scope of Artistic Expression	Trademark and scope of goods and services	Scope of Trade Secret

Right to Possess (i.e., control)	Right to Possess	Right to Possess	Right to Possess	Right to Possess	Right to Possess	Right to Possess
Right to Exclude others from using the property	RIGHT TO EXCLUDE others from using your house	RIGHT TO EXCLUDE others from using your car	RIGHT TO EXCLUDE others Utility and Design - - from making, using, offering to sell, or selling any patented invention, within the U.S. or importing into the U.S. any patented invention  Plant - - From asexually reproducing the plant, and from using, offering for sale, or selling the plant so reproduced, or any of its parts, throughout the U.S. or from importing the plant so reproduced, or any parts thereof	RIGHT TO EXCLUDE  1. Copying the work  2. Creating derivative works (i.e., works that are based on your work)  3. Distributing copies of your work (e.g., hard copies, digital copies, etc.)  4. Performing the work in public  5. Displaying the work in public	RIGHT TO EXCLUDE others from using the mark on your goods or services in the geographical area of your rights.	RIGHT TO EXCLUDE
Right to Use	Right to Use	Right to Use	NO RIGHT TO USE (right to use only if not infringing another patent)	RIGHT TO USE	RIGHT TO USE SUBJECT TO PRIOR USES	RIGHT TO USE
Right to Quiet Enjoyment	Trespass	Theft	Infringement Direct, contributory or by inducement	Infringement Any unauthorized copying or import of copies into U.S.	Infringement	Misappropriation
Right to Allow Others to Use	Lease	Lease	License	License	License	License
Right to Sell	Right to Sell	Right to Sell	Right to Assign	Right to Assign	Right to Assign	Right to Assign
Right to Enforce	Suit for Trespass	Suit for Trespass	Patent Infringement Suit	Copyright Infringement Suit	Trademark Infringement Suit	Suit for misappropriation of trade secrets
Infringement proof	Unauthorized entry	Unauthorized entry	Utility Literal or by equivalents  Design Substantially similar plus Literal or equivalent point of novelty	Substantially similar	Likelihood of confusion	Existence of trade secret Reasonable measures to keep it secret Information derives value from not being public Misappropriation of trade secret

Table 3. Bundle of rights that come from owning property.<sup>21</sup>

<sup>21</sup> “The Art of Intellectual Property - - Patent, Copyright, Trademark, and Trade Secret Essentials for Professionals, P.R. Juhasz, 2006 Conference on Legal Issues for Design Professionals, Houston, Texas, June 22, 2006

#### 4. Patents

##### a. What is a Patent

A patent is a form of IP that protects an invention. A patent is a bundle of rights to an invention that is granted by a government to the patent holder. The patent grant is in the form of an issued patent. You must file an application with the Patent Office to secure the patent. The patent grant is for a limited duration of time. For a utility or plant patent, the life of the patent is 20 years from the date of filing. For a design patent, the life of the patent is 14 years from the date of issue. In exchange for the patent grant from the government, the inventor is required to disclose details of his invention to the public.

##### b. Types of Patents

There are essentially three kinds of patents. They are utility patents, design patents and plant patents. Only the utility and design patents are addressed in this paper.

Utility patents protect new products or compositions, structures, functional features, and methods or processes. Table 4 illustrates a new product and some utility patent protections that may be available to it.

<b>New Computer Product</b>	<b>Available Utility Patent Protection</b>
Product	Computer
Composition	Liquid Crystal used for Display
Structure	Clam Shell
Functional Feature	Circuit for Turning Off an Overheating Battery
Method	Software
Process	Process for making the computer or the liquid crystal

Table 4. Illustrative Utility Patent Protections on a New Product<sup>22</sup>

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<sup>22</sup> See footnote 21 above.

Design patents protect the ornamental design for an article of manufacture. The design of Apple Computer's IPOD® is one example of an ornamental design protected by a design patent. This design patent issued as design patent No. D497,618. The design patent protects only the appearance of the article, but not its structural or functional features. The structural or functional features of an article would be protected by a utility patent.

While the protection provided by each kind of patent is different, the issued patent will generally include the following parts: (1) a disclosure of the invention, (2) drawings which show the invention, and (3) claims which define in legal terms what is patented.

c. Patentability

Not every invention is patentable. For an invention to be patentable, the invention must be useful. The invention must also be novel and non-obvious. In addition, the invention and corresponding application must meet other requirements for patentability.

Novelty *on the one hand* means that the invention must *not* have been publicly disclosed, publicly used or offered for sale by you or your representative. Public disclosure can occur by traditional publication of a paper describing the invention. It can also occur by non-traditional posting of information about the invention on a Website. Public use can occur by testing without a confidentiality agreement. An offer for sale of a product that embodies the invention is an offer to sell the invention.

The U.S. laws provide a *one year* grace period of time after any of the foregoing events to file a patent on the invention before the invention will be deemed to be no longer novel. Outside the U.S., most countries follow an absolute novelty requirement. Those countries provide for no grace period of time to file the application after the occurrence of any of the foregoing events. In those countries, any one of the foregoing events will bar patentability of the invention.

Novelty *on the other hand* also means that the invention is not already known to the public by someone else. If the invention has already been described by someone else

in a publication anywhere in the world or someone else has already publicly used or sold your invention in the U.S., the invention may no longer be patentable in the U.S. because it is no longer novel. In other words, if the prior work or “prior art” of someone else reveals every element of your invention, it will bar patentability of your invention.

In the U.S., if the prior art was put into the public domain by someone else within one year of the date you file your patent application, U.S. law allows you to swear the date of your invention behind the piece of prior art. This means that you may be able to overcome the prior art if you are able to prove that you conceived of your invention prior to the date of the prior art. Among other things, you also need to demonstrate that you were reasonably diligent in reducing your invention to practice. If you are able to do so, you may be able to remove the prior art as a bar to patentability of your invention. However, because of the absolute novelty requirement in most countries, the existence of the prior art may without more bar patentability of your invention outside the U.S.

In addition to being novel, the invention must also be non-obvious. Generally, an invention is obvious if two or more pieces of prior art when combined describe or reveal all of the features of your invention. The prior art can be a publication or an existing product. The U.S. Supreme Court recently provided a two-prong test for a patent to be obvious in view of a combination of prior art. First, the problem sought to be solved by the patent must have existed at the time of the invention. Second, the solution of the patent would have been obvious in view of the combination.<sup>23</sup> Otherwise the existence of pieces of prior art without more do not make the invention obvious. Obviousness can also exist based on a single reference along if it was obviousness to modify the reference.

The patent laws specify a number of other requirements that need to be met for an invention to be patentable. For instance, the application must describe the invention, enable one skilled in the art how to make the invention, and disclose the best mode or form of the invention known to the inventor. The claims of the patent must clearly define the scope of the invention. In addition, during the time that the patent application is

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<sup>23</sup> *KSR v. Teleflex*, 550 U.S. \_\_\_\_, 127 S. Ct. 1727 (2007),

before the Patent Office, that is, during the time that the application is being prosecuted, the inventor has a duty to disclose all prior art he knows of that may impact patentability.

d. The Wright Brother's Patent – What Was Patentable?

On March 23, 1903, Orville and Wilbur Wright filed an application for patent on a flying machine.<sup>24</sup> On December 17, 2003, Orville Wright made the first powered flight in a controllable aircraft.<sup>25</sup> On May 22, 1906, Orville and Wilbur were awarded U.S. Patent No. 821,393 on a flying machine.<sup>26</sup>

The Wright Brothers were not alone in their work to create a powered controllable flying machine. At the turn of the 20<sup>th</sup> century, a number of inventors were actively engaged in this pursuit.<sup>27</sup> Among them was Samuel Pierpont Langley, whose work was heavily financed by the U.S. Army. In October, 1903, the Langley Large Aerodome “A” took off from a launch boat and crashed into the Potomac River.<sup>28</sup> Two months later, Orville Wright successfully piloted the first controlled flight.

Figure 1 shows the design of the Langley Aerodome “A” based on 1898 design work. Figure 2 shows Figure 1 of the Wright Brother's patent.<sup>29</sup> The patentability of the Wright Patent was judged against the work of others prior to the Wright Brother's invention (i.e., prior art) including the work of Langley. While Aviation historians may consider Langley's work to be the world's first sustained flight by a powered heavier-than-air craft, the Wright Brother's are credited with the world's first controllable flight. As shown in Figure 3, the Wright Patent issued on a structure for “controlling” flight. The patent recites that structure as wing warping. Today, that structure is known as an aileron.<sup>30</sup> The patentability of Wright's wing warping feature was judged against the absence of that structure in the prior work of others. Neither the Langley work nor the

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<sup>24</sup> See U.S. Pat. No. 821,393 which issued to O & W. Wright on a Flying Machine.

<sup>25</sup> Orville Wright from the Web Site <http://www.wrightstories.com/airplane.html>

<sup>26</sup> See footnote 24.

<sup>27</sup> See <http://www.flyingmachines.org>

<sup>28</sup> See <http://www.flyingmachines.org/lang.html>

<sup>29</sup> See footnote 24.

<sup>30</sup> See, <http://www.wrightstories.com/patent>

work of others alone described or in combination suggested such a feature.<sup>31</sup>

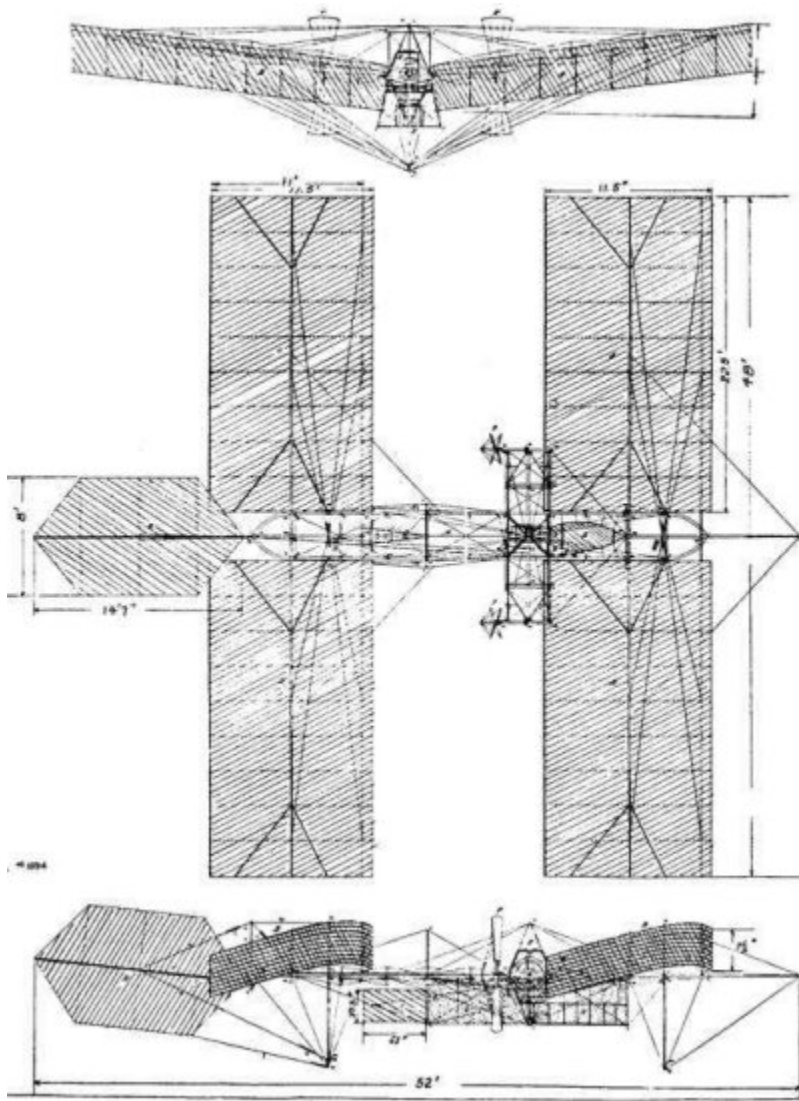


Figure 1. Drawings of the Langley Aerodome "A" 1903 dating back to 1898 designs<sup>32</sup>

<sup>31</sup> See footnote 27 above

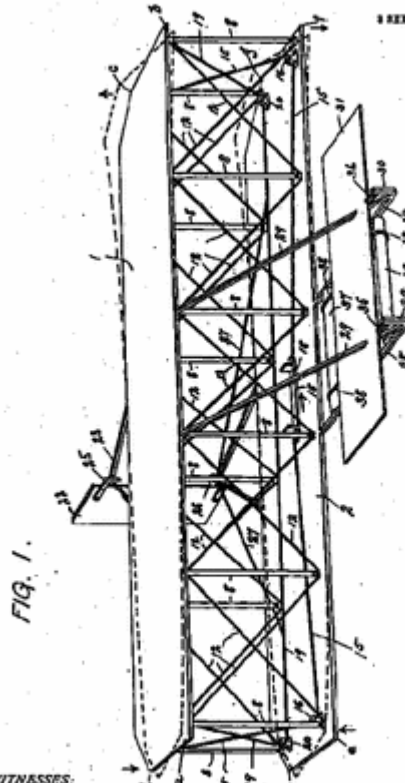
<sup>32</sup> See <http://www.aerospaceweb.org/question/history/q0004.shtml>

No. 821,293.

PATENTED MAY 22, 1906.

O. & W. WRIGHT.  
FLYING MACHINE.  
APPLICATION FILED MAR. 28, 1905.

2 SHEETS-SHEET 1.



WITNESSES:  
William F. Baum,  
Irvine Miller,

INVENTORS:  
Orville Wright,  
Wilbur Wright,  
BY  
H. A. C. [Signature]  
ATTORNEY.

Figure 2. Figure 1 of the Wright Patent

1. In a flying-machine, a normally flat aeroplane having *lateral marginal portions capable of movement to different positions above or below the normal plane of the body of the aeroplane, such movement being about an axis transverse to the line of flight, whereby said lateral marginal portions may be moved to different angles relatively to the normal plane of the body of the aeroplane, so as to present to the atmosphere different angles of incidence, and means for so moving said lateral marginal portions, substantially as described.* (emphasis added)

Figure 3. Claim 1 of the Wright Patent reciting wing warping structure for controlling a flying machine

No plane can fly without using the patented technology of the Wright Brothers. Yet it would take eight years of patent litigation against Curtiss and the Herring-Curtis Co. and others before the airplane industry would finally license the Wright Patent. From the outset, the airplane industry contended that the Wright Patent was not new because of the work of Louis-Pierre Mouillard not before the Patent Office. They also claimed the Wright Patent was not new and was further obvious because of "prior disclosure" by Chanute and Wilbur Wright. Figure 4 shows Mouillard's work directed to a glider.<sup>33</sup> Even if Mouillard suggested wing twisting to slow the wing on one side relative to the other, Mouillard never used a rudder on his glider and never coordinated wing twisting with a rudder. Figure 5 shows claim 8 of the Wright Patent which recites this coordinated aileron and rudder feature.

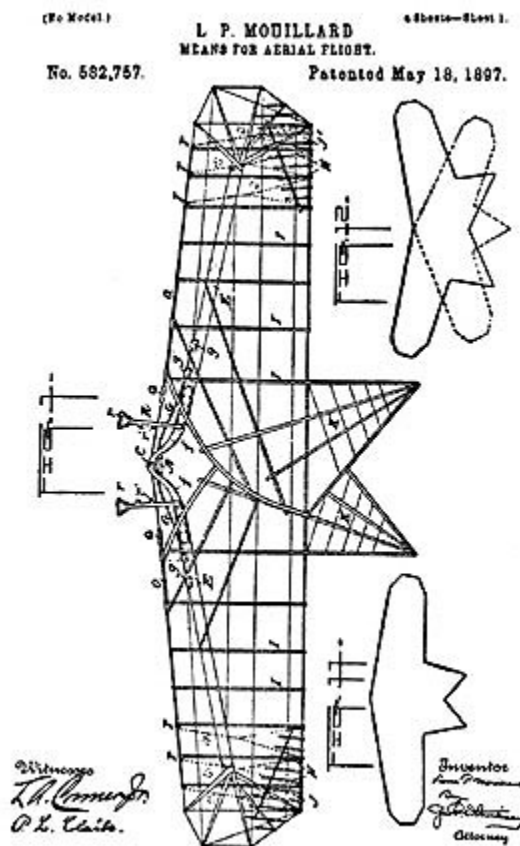


Figure 4. Mouillard Patent Raised In the Litigation of the Wright Patent

<sup>33</sup> See footnote 27 above under <http://www.flyingmachines.org/moui.html>

8. In a flying-machine, the combination, with two superposed and normally parallel aeroplanes, upright standards connecting the edges of said aeroplanes to maintain their equidistance, those standards at the lateral portions of said aeroplanes being connected therewith by flexible joints, and means for simultaneously moving both lateral portions of both aeroplanes into different angular relations to the normal planes of the bodies of the respective aeroplanes, the lateral portions on one side of the machine being moved to an angle different from that to which the lateral portions on the other side of the machine are moved, so as to present different angles of incidence at the two sides of the machine, *of a vertical rudder, and means where by said rudder is caused to present to the wind that side thereof nearest the side of the aeroplanes having the smaller angle of incidence and offering the least resistance to the atmosphere, substantially as described.*

Figure 5. Wright Patent Claim 8 Reciting Coordinated Wing Twisting with a Rudder

The German Supreme Court invalidated the corresponding German Patent over the prior art.<sup>34</sup> The French High Court announced a ruling favorable to the Wrights but granted defense motions to review the prior art.<sup>35</sup> The U.S. Circuit Court of Appeals upheld the validity of the Wright Patent.<sup>36</sup> Instead of ending the battle at this point though, Curtiss redesigned his airplanes thus requiring the filing of another lawsuit.<sup>37</sup> It was not until the intercession of the U.S. Government at the start of World War I before the Wright patent disputes were resolved.<sup>38,39</sup>

The Wright Patent battles underscores the importance of retaining good patent counsel in patent litigation and in all phases of patent protection. To maximize shareholder value on your patent investments, retain good patent counsel.

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<sup>34</sup> See footnote 30 above

<sup>35</sup> See footnote 30 above

<sup>36</sup> See footnote 30 above

<sup>37</sup> See footnote 30 above

<sup>38</sup> See footnote 30 above

<sup>39</sup> Members of the airplane association were granted use of the patented technology after payment of a blanket fee. As successors to the Wright Co., Curtiss and Wright-Martin each received \$2 million under the agreement. See footnote 30 above.

e. Right to License

A patent gives the holder the right to license his patented invention. A license is a contract between the patent holder, known as the licensor, and another party, known as the licensee. Under the license, the licensor grants the licensee the right to practice his patented invention. In exchange for the license grant, the licensee will typically provide something of value to the licensee. In many cases, the value provided by a licensee is a royalty payment. The payment can be structured to be periodically made so as to form an ongoing royalty stream to the licensor. The payment can also be structured as a one time up front lump sum payment. There are many other ways to structure the payment.

While royalty payments are the typical kind of value that patent holders receive for the patent, by no means are royalty payments the only kind of value that a patent holder can receive for his patent. The real value of a patent lies in the competitive advantage you gain by having the patent. There are five fundamental ways in which this competitive advantage can create opportunities and revenue streams for your business. These five ways are through: (a) license-out strategies; (b) license-in strategies; (c) business leveraging strategies; (d) capital formation strategies; and (e) patent defensive strategies.

License-out strategies involve the licensing out of patents in a way that supports your business. Table 5 shows a number of license-out strategies and some of their benefits and risks.

<b>Strategy</b>	<b>Upside</b>	<b>Downside</b>
License patent to augment your core sales. (direct use license)	If the market demand exceeds your production capability, you share in product deliveries made by your competitor.  Supports a second source for your customer's product needs	If your production capability exceeds the market demand, you may lose market share because you have given away your competitive advantage.  Could increase competitive pricing which could erode your margins
License patent for a non-competitive use (limited use license)	Creates a revenue stream from a market you are not presently servicing	You have created a competitor should you decide to enter that market
License patent for use in a	Direct use upside if geographical	Direct use downside if

geographic area (geographical area license)	area is one you are servicing  If you are not servicing that geographical area, it creates a revenue stream from a geographical area you are not presently servicing	geographical area is one you are servicing.  If you are not servicing that geographical area, you have created a competitor should you decide to enter the market
R&D License	Creates new applications for existing markets  Creates new applications for new markets	Licensee typically gets favorable licensing terms in exchange for R&D effort. (e.g., reduced royalty rate)  Licensee could create and own significant improvement inventions which could shift control of the market to the licensee
License to after-market service providers	Creates a revenue stream from a market you are not presently servicing	You have created a competitor should you decide to enter that market

Table 5. Some Patent License-Out Strategies<sup>40</sup>

License-in strategies involve taking a license out under a patent in order to create a business opportunity or revenue streams. You may need a license from a dominant patent holder in order to make your own product. As one example, take the case where Company X holds a patent on product ABC that prevents Company Y from making the product ABC part of its patented ABCD product. In this example, Company Y needs a license from Company X before it can make its patented ABCD product.

Even if your motivation for licensing-in a patent is unrelated to your own patent, there may be other reasons why securing a license may be advantageous. As one example, if you do not have the R&D capital to create your own technology, a license may give you access to technology without the R&D expense. As another example, even if you have the R&D capital to create your own technology, taking a license under an off-the-shelf patent may free up your R&D capital for use on other critical technical innovation.

Patents can be critical components of a business leveraging strategy. Patents can be used to strike strategic alliances, create joint ventures, or support franchising.

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<sup>40</sup> See footnote 21 above.

Patents can make your business more attractive to venture capitalists, investors or other sources of capital infusion. With the capital infusion, you can spend more on R&D, hiring, and other activities that can lead to more business opportunities and revenues.

A patent portfolio also gives you leverage in the event a patent or other lawsuit is brought against your company. The portfolio may give you bargaining chips to use in negotiating a patent cross-license or some other business settlement of the dispute.

The body of laws that govern patent licenses is the law of contracts which enforces the promises of people. A breach of a license provision in a contract would be enforced under the law of contracts.

## 5. Copyrights

### a. What is a Copyright

A copyright is a form of IP that protects an artistic expression that is fixed in a tangible medium, that is in a fixed form. A copyright is a bundle of rights to an artistic expression that comes into existence on the creation of the work. The creation of the work without more creates the copyright. The holder can enhance the protection of the copyright by placing a copyright notice on every use of the work. The highest level of protection can be secured by registering the work.

### b. Creation of the Copyright

A copyright comes into existence the instant an artistic expression is fixed in a tangible form. An artistic expression can be a literary work; a musical work; a dramatic work; a pantomime and choreographical work; a pictorial, graphic and sculptural work; a motion picture or other audiovisual work; a sound recording; or an architectural work. A tangible form is any stable medium that holds the artistic expression and allows it to be reproduced. The tangible medium can include writings, paintings, sculptures, photographs, sound recordings, video recordings, architectural drawings, engineering blueprints, computer software, computer displays.

A copyright protects an expression. It does not protect the content of the expression. Hence, ideas, concepts, principles, or facts are not copyrightable. The only thing copyrightable are the expression of those ideas, concepts, principles, or facts. Where there is only one way to express the underlying content, no copyright can exist for that expression of the underlying content.

To be copyrightable, the expression must be an “original work of authorship”. This does not mean that the expression needs to be new or unique. All that is required for the expression to be copyrightable is that the expression originates with the author (and is expressed in a tangible medium).

A copyright exists even if the work is not published. Publication is the “distribution” of copies of the work to the public by sale or other transfer of ownership, or by rental, lease or lending. For a work to be deemed to be “published”, the work must “change hands”. For example, the sale of a phono-record is a publication. A performance on television is not a publication for copyright purposes because the viewer does not walk away from the performance with a copy of the work. On the other hand, providing copies of a phono-record to wholesalers, broadcasters, or motion picture theaters for further distribution, public performance, or public display is a publication under the copyright laws.

c. Notice

Notice is not required for a copyright to exist. But if your work is clearly labeled with a notice of copyright, copyright violators cannot claim that they did not know that the work was protected. Without notice, an innocent infringement defense may result in a reduction of damages due to the innocent infringement.

A typical copyright notice has three elements: (1) some indication that the work is copyrighted, such as, “©”, the word “Copyright” or words to that effect; (2) the year in which the work is created, or if the work is published, the year of publication; and (3) the holder of the copyright. In use, the notice for a published work might look something like this:

Copyright. Company X. 2001

For an unpublished work, the holder might want to still put a notice on any work that leaves his control. In that case, the notice might look like this:

Unpublished work. Copyright. Company X. 2001

While not required in the use, the use of the additional words “All Rights Reserved” is still required in some countries for there to be adequate notice.

d. Registration

Registration is not required for a copyright to exist. However, a federal copyright registration is required before a suit can be brought on the copyright in federal court. A registration also provides additional remedies and procedural advantages.

If you register within three months of the first publication, you can obtain statutory damages. Without statutory damages, a copyright owner must prove actual damages and any additional profits of the infringer. This is difficult to prove and often turns into a battle between accountants and economists. With statutory damages, a copyright holder can recover not less than \$750 or more than \$30,000 per infringement. In addition, if the court finds that the defendant's behavior was "willful," the court has discretion to increase the award of statutory damages to a sum of not more than \$150,000 per infringement.

Registration also provides a public record of ownership of the copyright. A registration further provides evidence of the validity of the copyright and of the facts stated in the certificate.

e. Title and Ownership

Title of a copyright is evidenced by the artistic expression, and if registered, the copyright registration. When copyright registration is granted, the Copyright Office will issue the copyright instrument to the copyright holder. The copyright holder may be the

creating artist. If the copyright registration has been assigned, the assignee of the registration will be issued the registration.

The author of the work is the owner of the copyright. An exception to this rule is when the “work-for-hire” rules apply. Under the work for hire doctrine, the employer is the author of the work in two instances. The first is if the work is created by an employee within the scope of his employment. The second is when the work falls within one or more of the nine statutory categories, where the agreement commissioning the work is documented in writing and the agreement is signed by the author before the work begins. The nine statutory categories include: (a) a contribution to a collective work, (b) part of a movie or other audiovisual work; (c) a translation; (d) a supplementary work; (e) a compilation; (f) an instructional text; (g) a test; (h) answer material for a test; (i) an atlas.

Notwithstanding the above, if the author, or in the case of a “work for hire”, the employer, assigns the copyright, the assignee is the new owner of the copyright. Table 6 illustrates a number of artistic expressions, whether a copyright exists, and who is the holder of the copyright.

<b>Artist</b>	<b>Artistic Expression</b>	<b>When Created</b>	<b>Copyright Holder</b>
Jake the singer	Thinks of lyrics during lunch	No copyright since lyrics not fixed in a reproducible format	No copyright to hold
Jake the singer	Jots down lyrics on a napkin in between bites of a sandwich	When he jotted down the lyrics	Jake
Dagger the guitarist	During a jam session, he strings a set of tones that he develops into a melody for a song	No copyright since melody not fixed in a reproducible format	No copyright to hold
Dagger the guitarist	He records the melody onto a digital memory disk	When he recoded the melody onto the disk	Dagger
Charlie the drummer	While flipping through the photo album of pictures he took on the band’s last tour, he finds a perfect photo for CD album cover	When he took the picture	Charlie
Studio	The band plays the song at the Studio and the Studio records it	When the song was recorded	The band unless the band assigned rights over to the Studio
Studio	The Studio hires a painter	When the photo and	Charlie owns the copyright

	to do a painting for the jacket of the CD.  The Studio designs a CD jacket using Charlie's photo and the painting	painting are married together into the jacket	in his photo  The artist owns the painting for the jacket unless he assigned the rights over to the Studio  The CD jacket melding the photo and painting together is a derivative work owned by the Studio
A Fan	Takes a picture of the Band while performing	When the picture is taken	The Fan owns the copyright in the picture
A Reporter	Interviews the Band on a tape recorder for a Newspaper article	When the interview is recorded on tape	The Reporter unless he assigned the rights over to the Newspaper
A Reporter	Writes an article for inclusion in the next day's paper	When the article is written	The Reporter unless he assigned the rights over to the Newspaper
A Freelance Reporter	Interviews the Band	When the interview is recorded or notes are taken	The Freelance Reporter
A Freelance Reporter who has sold her story to Band Magazine	Interviews the Band	When the interview is recorded or notes are taken	The Band Magazine

Table 6. Examples of Copyright Creation and Who Owns the Copyright.<sup>41</sup>

f. Duration

The duration of a copyright depends on when the work was created, published or registered as shown in Table 7.

Date of Work	Term
Created on or after January 1, 1978	Life plus 70 years  Or  Shorter of 95 years or 120 years from creation if anonymous work (e.g., work for hire) or under pseudonym
Created Pre-January 1, 1978 but not published or registered	Generally, life plus 70 years  Or  Shorter of 95 or 120 years for anonymous or

<sup>41</sup> See footnote 21 above.

	pseudonym work
Published Pre-January 1, 1978 and used with © notice or registered and renewed	Generally, 95 years

Table 9. Duration of Copyright Protection.<sup>42</sup>

f. Bundle of Rights

A copyright gives the owner of the copyright the exclusive right to do and to authorize others to do the following:

1. Copy the work
2. Create derivative works (i.e., works that are based on your work)
3. Distribute copies of your work (e.g., hard copies, digital copies, etc.)
4. Perform the work in public
5. Display the work in public

You have the right to use the copyright exclusively. You also have the right to authorize others to enjoy one or more of your rights.

In many countries, a creator of a copyright is also granted certain “moral rights” that relate generally to protecting the reputation and honor of the author. The U.S. copyright laws provide authors of a work of visual art with limited moral rights. Specifically, the author of a work of visual art has certain moral rights respecting the right of attribution (e.g., to claim authorship of that work and to prevent the use of his name as the author of any work or visual art which he did not create) and the right of integrity (e.g., to prevent intentional modification of that work and destruction of a work of recognized stature).

g. License

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<sup>42</sup> See footnote 21 above.

Not unlike patents, copyrights can give you a competitive advantage. They can create opportunities and revenue streams for your business through: (a) license-out strategies; (b) license-in strategies; (c) business leveraging strategies; (d) capital formation strategies; and (e) copyright defensive strategies.

Example – In 1985, Michael Jackson paid \$47.5 million to acquire the ATV Music catalog which included about 4,000 songs including 200 tunes penned by the Beatles. In 1995, Michael Jackson used his catalog to raise money by striking a deal to merge ATV with Sony’s publishing arm. Later, Michael Jackson used his remaining 50% stake in the catalog as collateral for loans. Most recently, in order to secure additional financing, he granted Sony an option to secure half his stake. Throughout this time, Michael Jackson collects royalties every time a Beatle tune in his collection is played in public.

Unlike patents, if all you want to do is to enjoy your copyright entirely by yourself, you can do just that.

## 6. Trademarks

### a. What is a Trademark

A trademark is a form of IP that protects any word, name, symbol, sound, color or combination of these elements that distinguishes a good or service. Some examples of marks used for goods or services are Kodak® film, Nokia® cell phones, the shape of a Coca-Cola® bottle, the pink color of Owens-Corning® insulation, the hog sound of a Harley-Davidson® motorcycle, the jingle used in Intel® commercials.

By “distinguishing a good or service” is meant that the mark identifies the source of the goods and hence the quality of the goods. If you buy a Coca-Cola® soft drink, you know that the soft drink comes from the Coca-Cola company. You also know that the soft drink you are buying will have a certain quality – that sweetness, effervescence, taste, color, etc. that you have come to expect every time you buy a Coca-Cola® soft drink. The Coca-Cola company carefully controls the quality of every aspect of its

product – from production all the way down to shelf space at a local store. That consistent high quality is what the consumer recognizes when it buys a Coca-Cola® soft drink. When you buy an unbranded soft drink, you never quite knows what to expect of the quality of the drink.

By “goods or services” is meant the specific type or range of products or services with which the mark is used. The trademark protects only those range of products or services on which the mark is used and natural extensions of those range of products or services.

b. Creation of the Trademark

In the U.S., trademark rights are created by actual use of the mark, not by registration. Upon actual use of the mark, you will have common law rights to the mark.

Registration is not required for a trademark to exist. However, a federal trademark registration is required before a suit can be brought on the trademark in federal court. A registration also provides additional remedies and procedural advantages.

In addition, an intent-to-use application may protect your right to secure a federal registration on your mark in advance of your actual use of the mark on a product or service.

In many foreign countries, trademark rights depend on registration of the mark with the local trademark office.

c. Registration

A mark can be federally registered unless it is (a) a generic (i.e., common) word; (b) a surname; (c) geographically descriptive or misdescriptive; (d) scandalous or immoral; or (e) deceptive.

In the U.S., registration is not a prerequisite to having trademark rights. But a registration provides you with additional benefits not provided under the common laws.

Registration of the mark can occur at the federal and state level and each registration provides a different bundle of additional rights. On the other hand, in many foreign countries, trademark rights depend entirely on the successful registration of your mark.

A federal registration gives you exclusive rights to use the mark in connection with your products or services throughout the jurisdictions of the United States. In effect, the registration gives you a nationwide claim to your mark in connection with your products and services. Moreover, after five years, the registration becomes incontestable. This means that your mark can no longer be challenged or cancelled except on very narrow grounds. These grounds could be things like fraud in the procurement of the registration or that the mark no longer satisfies the requirements for registration because the mark has become a generic, scandalous, immoral, or deceptive term.

In addition, the registration serves as public notice of your rights. Every time a company searches the federal trademark register for the purpose of clearing the use of a new mark, your federal registration will appear in the results of the clearance search. Once registered, you can mark your trademark with the registration symbol ® or circle “s”. By properly marking your trademark you provide notice to the public of your ownership of the mark every time you sell a product. Further, the use of your trademark on your product distinguishes your product from other products that may appear alongside your product on customer shelves, advertisement or promotional materials. The use of the registration symbol on your product alongside your business name reinforces the consumer awareness of the connection between your product and your company as the source of the product.

Failure to use a registration notice limits the remedies available to a trademark owner in a lawsuit and is required for a trademark holder to recover damages and profits in a suit for infringement, unless the defendant had actual notice of the registration.

If your registration without more does not steer companies away from infringing your mark, a cease and desist letter forwarding a copy of your registration sends a strong message of the solid grounding of your claim and the uphill battle the infringer is facing

should he continue his infringement. If the matter escalates to litigation, the federal registration allows you to bring your trademark infringement suit in federal courts. Once in court, your registration serves as evidentiary proof of your trademark rights and helps you meet your burden of proving infringement.

The registration also serves as one basis for obtaining registration in foreign countries. U.S. is a party to the Madrid Agreement which provides for registration of trademarks in various countries. After registration of your mark in the U.S., you can make an application at an international office for an international registration indicating the countries in which you want your trademark registered. The international office passes your application on to each of the countries you have designated in your application. Those countries have one year in which to refuse your registration in their country. Another way to obtain a registration in one or more foreign countries is to file your registration directly in each country.

A federal registration may also help block importation of goods that infringe registered marks. To get this benefit, you should register your trademark registration with the U.S. Customs and Border Protection to have the CBP target, intercept, detain, seize and forfeit shipments that infringe your trademark.

A federal registration is also helpful in defeating a third party claim to a domain name that infringes your mark. The World Intellectual Property Organization (WIPO), which arbitrates domain name disputes, gives trademark registrations great weight when deciding domain name claims.

State registrations provide a different bundle of rights that vary from state to state. The registrations are generally easier to obtain than a federal registration. The state registration provides notice of your rights in the state. Enforcement of those rights occur in state court.

d. Selecting a Trademark

A trademark will generally fall into one of four categories, namely: (a) fanciful marks, (b) arbitrary marks, (c) suggestive marks, and (d) descriptive marks. Together, these categories define a spectrum of the potential relative strength of the mark. A mark that is fanciful has the potential to be the strongest mark, while a descriptive mark is likely to be weak.

A fanciful mark is one that has no meaning. An arbitrary mark has some meaning to the public, but when used with your product, does not suggest or describe any quality of the product. A suggestive mark suggests some quality or character of your product but does not describe any quality of your product. A descriptive mark describes a quality of your product. Table 8 contains a listing of these categories of a mark together with some examples of trademarks in each category.

<b>Category of Mark</b>	<b>Marks Illustrative of this Category</b>
Fanciful	Kodak® (film), Pepsi® (soft drink)
Arbitrary	Cars® (new wave band of the 1970's)
Suggestive	Mustang® (automobile)
Descriptive or Quasi-Descriptive	Coca-Cola® (i.e., coca' leaves + `kola' nuts, flavorings in the drink)

Table 7. Categories of Marks and Illustrative Examples<sup>43</sup>

While the category in which a mark falls into may define its potential for becoming a strong mark, whether or not the mark becomes strong ultimately depends upon the quality of the product and the quality of the marketing that goes into selling the product. Consistent quality in product and marketing will lead to increased consumer awareness of the quality of the product and source of the product represented by the mark. In turn, a publicly perceived strong mark will lead to increased sales of the product. Therein lies the value of a trademark.

At the end of the day, a trademark asset is only as good as the quality of the product and the source of the goods. Take the Coca-Cola® trademark as an example.

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<sup>43</sup> See footnote 21 above.

Notwithstanding its origin is arguably a quasi descriptive mark, the billions of capital that the Coca-Cola Company has sunk into improving and maintaining the quality of its product, and implementing and enforcing quality control and marketing measures has made the Coca-Cola® trademark one of the most recognized trademarks in the world.

Trademarks are never granted on a generic mark. A generic mark is a mark that describes a whole class of similar products. An example of a generic mark would be use of the mark “Cheese” to identify a cheese product. The mark fails as a mark, because it does not distinguish your cheese over other cheese products.

f. Duration

The duration of a common law trademark is for so long as the use of the mark continues.

The federal registration is valid for an initial ten (10) years provided that an affidavit of continued use is filed in the sixth year. Thereafter, the federal registration is renewable for any number of successive ten-year terms provided that the mark is still in use in commerce as evidenced by an affidavit filed in the tenth year.

The duration of a state registration varies from state to state. The duration of a foreign registration varies from country to country.

i. Right to License

Not unlike patents, trademarks can give you a competitive advantage. They can create opportunities and revenue streams for your business through: (a) license-out strategies; (b) license-in strategies; (c) business leveraging strategies; (d) capital formation strategies; and (e) trademark defensive strategies.

Brand licensing, brand extension licensing and franchising are three business relationships commonly used to leverage a trademark. Under a brand license, a trademark holder licenses a company to provide goods to a marketplace not served by the licensor. The goods may be the goods of the trademark holder. For example, the

trademark holder may make products and sell those products in the U.S. but license other companies to sell those products outside the U.S. Alternatively, a trademark holder may be a company that holds the trademark but makes no products. Rather, it licenses other companies to make and sell products under the trademark. An example is a global company that holds the trademark asset and licenses its subsidiaries to make and sell products under the trademark.

Under a brand-extension license, a trademark holder licenses a company to use the trademark on goods that are typically not of the kind sold by the trademark holder in order to extend the reach of his trademark beyond the core goods sold by the trademark holder. A company must always take great care to ensure that every brand-extension license enhances the licensed brand. Because every brand invokes a unique set of attributes in the mind of the buyers of the branded products, a brand-extension license should be granted only to those products that share the same attributes as the branded product. In this way, the brand-extension use will reinforce the attributes of the house-brand.

A trademark license may also play a big role in a franchise. A franchise is a business arrangement in which a business operation is licensed to an operator usually for a buy-in fee and annual payments.

Regardless of the licensing program you adopt for your trademark, it is critical that every license you grant be done on terms that control the quality of the use of the mark. The license should provide for periodic audits to allow the holder to ensure compliance with the quality control measures. If the licensee fails to comply with the quality control measures, you should have the right to terminate the license.

k. Trade Dress

Trade dress is a distinctive packaging or a distinctive design of a product that distinguishes your product from other products in the marketplace. The elements that make up the trade dress may include a color or shape like the soft drink bottle of the Coca-Cola Company. The trade dress protects packaging or design features. If the

design features also performs a function which function cannot be duplicated without using the feature then the feature will not be protected by trade dress.

Example - The soft drink bottle of the Coca-Cola Company both functions as a soft drink container and has a distinctive design. The distinctive shape is protected trade dress because the container function can be duplicated without using the distinctive shape.

A trade dress may be also protected under trademark laws if the use of the trade dress by another is likely to cause confusion as to the product origin. In the example of the shape of the soft drink bottle of the Coca-Cola company, the use by another of a similar shaped soft drink bottle is likely to cause consumer confusion as to the source of the product – i.e., the consumer is likely to think that the soft drink bottle of the other company comes from the Coca-Cola company.

#### l. Company Name

A company name is a name by which a company is identified. The name could be your personal name or an assumed or fictitious name. Before doing business under an assumed or fictitious name (i.e., doing business as) you should register your name. In many states, this registration is done at the local level.

There is a certain tension that exists between trade names and trademarks. Often the name that is chosen to identify a company is the name that the company plans on using as its mark to identify its products. Even if the name that the company decides to use as its trademark is different from the name that the company adopts as its name, there is no guarantee that the name used by the company to identify the company is being used by another company as a trademark.

#### m. Domain Names

A domain name is a Web-site address. It is a unique name that identifies the location of your Web-site on the Internet. A business organization or entity can set up a

Web Site on the Internet and the domain name allows Internet users to locate that Web Site on the Internet.

In order to use a domain name, it must be registered with a registry. The domain name is registered for a specified duration of time and the registration is renewable.

Often a company will use its trademark in its domain name. Specifically, the company will form a domain name using the trademark and adding a top level designator such as .com to it to form the complete domain name. The advantage of using your trademark in your domain name is that it will likely increase traffic to your Website since the first domain name that a consumer is likely to associate with your company is a domain name based on your trademark. However, there is no requirement that a domain name be based on a trademark.

This advantage was not lost on pirates who registered popular Internet address with the intent of selling it to its rightful owner. Federal laws against these so called cyber-squatters give trademark and service mark owners the upper hand in a domain name dispute involving someone who obtained a domain name in “bad faith” that is identical or confusingly similar to a trademark or service mark.

#### n. Unfair Competition

Unfair competition is a tort (i.e., a wrong) that causes injury to a business through unfair business practices. These practices include infringement of trademarks and service marks; use of confusingly similar corporate, business and professional names; use of confusingly similar titles of literary works on other literary property and on commercial goods; the appropriation of distinctive literary and entertainer characterizations; simulation of a container or product configuration and of trade dress and packaging; infringement of the right of publicity; misappropriation of valuable business values; “bait and switch” selling tactics; false representations and false advertising; “palming off” goods by unauthorized substitution of one brand for the brand ordered; theft of trade secrets; filing a groundless lawsuit or administrative challenge as an aggressive competitive weapon; sending cease and desist letters charging patent infringement before

a patent has been granted; an unreasonable rejection of goods shipped under contract; physically obstructing entrance to a competitor's place of business and harassing its customers.

Unfair competition is largely governed by the common law that has evolved in the states. However, state laws like state deceptive practices laws and federal laws, such as those that govern federal trademark and copyright registrations as well as the Federal Trade Commission regulations also govern unfair competition.

## 7. Trade Secrets

### a. What is a Trade Secret

A trademark secret is a form of IP that protects business or technical information that has economic value by being kept secret. The business or technical information includes ideas, designs, engineering and manufacturing processes, drawings, formulas, and procedures. It also includes business and strategic plans, capital spending plans, pricing data, procurement plans, financial information, employee records, new ideas, trade secrets, inventions, and patent applications. Confidential information may be in the form of hard copy or soft copy or electronic communication such as emails. Confidential information may also be in the form of a physical object such as a prototype of a product or a mold for making a product.

The economic value of a trade secret lies in the secrecy of the information. The secret information may allow you to introduce functionality into your product that others cannot reproduce because they do not know the secret way that you make the product. The secret information may also allow you to make a product more efficiently because of secret efficiencies you have created for your manufacturing process. Once the secret becomes known by others, you may lose the competitive edge you enjoyed while the information was still a trade secret.

### b. Creation of a Trade Secret

A trade secret comes into existence the instant the information of economic value is created so long as it is maintained as a secret. It is thus not enough to simply create a

trade secret. The owner must take reasonable measures to keep such information a trade secret. For this purpose, a company should develop and implement policies to ensure the secrecy of the information. A good trade secret policy will address the treatment and handling of trade secret areas in three major areas. The first is the treatment and handling of trade secret information by employees. The second is the treatment and handling of trade secret information in connection with outside discussions and agreements. The third is the treatment and handling of trade secret information in connection with engaging in design activities, including reverse engineering.

c. Outside Discussions and Agreements

When engaging in discussions of trade secrets outside of the company, it is critical that those discussions occur under a non-disclosure agreement. A non-disclosure agreement provides for the disclosure of trade secrets but on the condition that the recipient promises to keep the disclosed information confidential. A disclosure of trade secret to a recipient not bound to secrecy is like making your information public. In either case, the non-confidential disclosure will cause your information to lose its status as a trade secret.

Non-disclosure agreements are widely used agreements that allow for discussions about trade secrets outside the company without the losing the confidentiality of the trade secret information. They allow you to have discussions about your trade secrets in connection with exploring a possible business relationship with another company. They allow these kinds of discussions for exploring and entering into relationships for purposes of outsourcing design, development and testing work, pilot testing, or manufacturing. They allow these kinds of discussions for purposes of striking a business relationship with another company such as signing on a distributor or entering into a joint venture.

While early on in the discussion process, the non-disclosure agreements without more may be enough to govern the discussions. As the discussions proceed beyond discussions though such as actually doing pilot testing work, or entering into a distributorship or joint venture agreement, you will need to put a more comprehensive agreement into place that details the terms and conditions of that business relationship. Often, the new agreement will include a provision on confidentiality that will govern all

discussions involving the trade secrets including those that occurred under the non-disclosure agreement. At other times, the confidentiality provision of the new agreement will govern discussions of the trade secret from the date of that agreement going forward and leave the pre-agreement discussions of the trade secrets to continue to be governed by the non-disclosure agreement.

When drafting confidentiality agreements, it is important to realize that even in the realm of trade secrets there may be differing levels of sensitivity of the information. Some information like customer lists, pricing data, design drawings may cause the owner great harm and so may be considered to be super sensitive information. Other information, such as company summaries of public information, may be less sensitive.

A good agreement will address the differing levels of conduct with respect to the differing levels of confidentiality of the information. A good policy on agreements will address what agreements are needed and at what point in time in your business relationship you need to put those agreements into place.

d. Right to License

Not unlike patents, trade-secrets can give you a competitive advantage. They can create opportunities and revenue streams for your business through: (a) license-out strategies; (b) license-in strategies; (c) business leveraging strategies; (d) capital formation strategies; and (e) litigation defensive strategies.

8. Comparison of U.S. and Foreign IP Law

Table 7 provides a general comparison of IP laws in the U.S. and foreign countries.

	Patent		Copyright		Trademark		Trade secret	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
Requirements	1 year grace period to file	First to File  Absolute Novelty	Artistic Expression in Tangible Medium	Generally, Artistic Expression in Tangible Medium	First to Use	First to File	Information of Economic Value Kept as a Secret	Information of Economic Value Kept as a Secret
Duration of Ownership	Utility, plant - - 20 years from date of	Utility - 20 years from date	Created on or after January 1,		Renewable for 10 year			

	filing  Design – 14 years from date of issue  Plant Certificate 20 years from date of issue	of filing	1978  Life plus 70 years  Or  Shorter of 95 years or 120 years from creation if anonymous work (e.g., work for hire) or under pseudonym		periods			
Filing	In Name of Inventor	In Name of Owner	In Name of Creator	In Name of Creator	In Name of Owner	In Name of Owner	None	None
Select Treaties	European Patent Organization  Patent Cooperation Treaty		Berne Convention  Universal Copyright Convention on software		Madrid Convention		Uniform Trade Secrets Act  Economic Espionage Act	NAFTA GATT
Costs	10:5 Rule \$10,000 to prepare patent + \$5,000 filing and other fees per country		\$30 on up		Under \$1000		Cost for maintaining information a trade secret	
Maintenance	Required at 3-1/2, 7-1/2 and 11-1/2 years	Required generally annually			Affidavit of Use due in 6 <sup>th</sup> year of 1 <sup>st</sup> 10 years  Then every 10 <sup>th</sup> year			

Table 7. Comparison of U.S. and Foreign IP Law<sup>44</sup>

## 9. Conclusion

The buzz in business circles today is about “intellectual property”, particularly “patents”. Intellectual property are the rights associated with the development, protection and exploitation of innovation. It is an effective business tool for enhancing market share and penetrating new markets. It is an effective tool for leveraging sales and creating new revenue streams. It is an effective tool for enhancing the attractiveness of a business to venture investments, acquisitions and/or other transactions. Now more than ever, intellectual property provides a key tool for helping men and women enhance the shareholder value of their businesses.

<sup>44</sup> See footnote 21 above.