Does Your Business Have Intellectual Property to Protect?

By Kimberly S. Grimsley and Pamela K. Riewerts

Many businesses—including CPA firms—do not realize they have intellectual property rights that are valuable, such as trademarks and copyrights in works, and that there are means to protect them. Conversely, many businesses may think they own the intellectual property rights in work that they paid for, such as custom software, when in fact they may not hold any such rights at all.

Generally, there are four categories of intellectual property: trademarks, copyrights, patents and trade secrets:

- Trademarks are words, symbols or phrases that are used in connection with a good or service and identify the source of the product or service. For instance, Coke is a trademark used in connection with carbonated soft drinks, and the source is The Coca-Cola Company. Another example is the Target bull's-eye logo used in connection with its retail stores.
- Copyrights are rights created from an original work of authorship that is reduced to a tangible medium, such as books, artwork, even software programs and Web site content.
- Patents encompass "inventions"—novel and nonobvious utilitarian processes, matter or articles of manufacture—and can include design patents or business method patents.
- Trade secrets are nonpublic information and know-how that would have a value to a competitor. Following the Coke example, the formula for Coke is considered one of the most valuable trade secrets in the world.

It is important for firms and companies to take time to review their business information to grasp the value of their intellectual property and to determine what rights they actually hold and those they do not. Intellectual property attorneys assist their clients in conducting what is referred to as an "intellectual property audit" to give a business a picture of its rights.

Below is a brief checklist of items that such an audit might cover. You may be surprised to see how much of what your firm owns falls into these categories.

Trademarks

Does the business have trademarks? Firms and companies should determine if they are using any trademarks in connection with their goods or services. For instance, do they use a design, word or phrase in connection with a product, such as clothing or a pharmaceutical product, or a service such as accounting services or consulting service? For instance, a CPA firm may use a unique phrase or tag line in its marketing material in connection with its accounting services. The use of a mark alone establishes trademark rights in the geographic area of use, which is beneficial in preventing others from using the same or a similar mark in the same geographic area. However, if you are using, or intend to use, the mark in interstate commerce, a federal registration is beneficial because most marks when registered provide nationwide priority rights to the trademark owner. Registration acts as notice to the world that you own a trademark in a mark for particular goods or services, which is an important deterrent to third parties who may have considered using the same or similar mark. Thus, when doing an audit, companies should review their Web sites and marketing materials to determine what trademarks they have and whether these are registered or should be registered.

Are the business' marks available for use? Another important aspect in reviewing trademarks is to make sure the marks you are using are actually available for you to use as such. If you are using a mark that is the same or similar to another mark in a related field by a prior user, you could find yourself in threatened or actual litigation for trademark infringement. For instance, if two CPA firms are using the same logo in connection with its accounting services, cus-

tomers will be confused as to the source of the logo. In fact, some courts have held that the failure to search a mark for availability before a large launching of a product could potentially constitute willful trademark infringement.

Consistent use of marks and policing marks. Once you have established rights in a mark, two important aspects are to use your marks consistently and to police your marks. Regarding consistent use, you should use your marks on your products or in connection with your services in the same manner and form in which they are registered, or if not registered, as you have always used the mark. Strength in a mark is built up through consistent use, and modifications could potentially hinder your rights and your registrations. In addition, you should police the marks to make sure other third parties are not using them. If you do not watch your marks and contest others who infringe upon your mark, you run a risk of losing your rights in the mark.

Licensing. A final task on the trademark checklist is to determine if you are allowing others to use your mark. For instance, do you have affiliates or third parties you allow to use your mark? If so, do you have license agreements in place outlining your rights in the mark and the fact that you will exercise quality control over how your mark is used by the third party? Failure to manage the quality of goods and services sold under your marks—referred to as naked licensing—can potentially lead to losing your rights in a mark. Thus, to maintain all rights in your marks, you should have license agreements in place containing quality-control language, and you should actually review the quality of those goods and services.

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Copyrights

Does the business have copyrighted material? Companies should investigate what works of authorship they have created. This includes works created by employees in their scope of employment. Copyrights do not involve just novels and artwork. If your company has created software programs, training manuals or articles for its Web site, the creation of such material in some fixed medium creates copyright rights in the material. To be copyrightable, the work must be fixed in a tangible medium of expression. Your idea for a software program or advertisement is not copyrightable; however, you can protect the expression of that idea. Therefore, your software program or brochure promoting your business is copyrightable. Copyright owners enjoy several exclusive rights in their works, including the right to reproduce the work, to make derivative works (adaptations or transformations of the original work), to distribute the work and the right to display and perform the work publicly

Why obtain copyright registrations? With copyrights, you are protected under the Copyright Act the moment a work is created. However, you may want to consider obtaining copyright registrations in these works. Registration is generally inexpensive and offers several benefits. It constitutes public notice the work is protected, which may deter others from copying the work without permission. Registration is mandatory before bringing a copyright-infringement lawsuit. A third benefit of timely copyright registration is that it entitles the registrant to certain legal remedies against infringers that would not otherwise be available, such as statutory damages and attorneys' fees. Otherwise, an award will be limited to actual damages and profits, which can be difficult and expensive to prove. Thus, although federal law provides businesses and individuals with copyright protection from the moment an original unique work is created, prompt copyright registration gives many important advantages to business owners and other authors of copyrightable works.

Employee works vs. independent contractor works. To the extent you had work created by employees, that work is automatically deemed to be authored and owned by the employer under the work-for-hire doctrine. However, if the work is created by an inde-

pendent contractor, it is likely that the rights in the work are actually owned by the independent contractor, and at most, you may have a license to use the work, unless your contract specifically states that you will own all intellectual property rights in the work. This issue arises frequently in situations of customized software and Web site development. Thus, to the extent you have had works of authorship created, such as software programs, Web sites or survey manuals, you should review your contracts to determine the ownership rights. To the extent you do not own the rights in the work, you could consider negotiating with the independent contractor to assign the rights to you.

Licensing. To the extent you allow others to use your work, you should make sure you have licenses in place with these parties that fully explain your ownership in the works and the other party's right to use them under terms of the license you grant. You also want to make sure you have the right to terminate the license in the event of a breach of the license terms. Further, to the extent you are using work that is owned by someone else, you should review the license agreement to determine your rights and obligations under the agreement.

Patents

Does the business have patents? Patents cover a variety of technology, including inventions in connection with mechanical devices, processes, scientific compound combinations, new varieties of plants, software programs and product designs. Patents can also be obtained on novel and nonobvious business methods, though these types of patents are scrutinized heavily and take much longer to issue. A patent is issued by the federal government and gives the holder the right to prevent others from making, using, selling or importing any device or process that infringes one or more claims in the patent. In most cases, this right is limited in time to 20 years from the date it is filed with the United States Patent and Trademark Office (USPTO). It is important to note that patents are negative rights—that is, they provide a right to prevent others from doing certain things; in plain English what this means is that just because you have a patent, that does not mean you can sell or make that device because doing so could still infringe a prior patent.

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Processes and procedures in place. To qualify as a patentable invention, the invention must meet certain requirements. Therefore, a business should ensure that it has the proper processes and procedures in place to assess an invention for patentability. Such procedures include having employees notify the proper business personnel upon development of a potential invention and evaluating the strength of such invention.

Deadlines. It is of utmost importance to consult a patent attorney early on in the invention process regarding the scope of prior art or the possibility of infringing another's patent. In the United States, patents must be filed within one year of the date a product or service embodying the patent is sold, offered for sale, publicly used or publicly disclosed. In most other countries, there is no grace period, and the application must be filed before any commercial use or disclosure. By consulting a patent attorney, a business informs itself of patentability requirements, application details and filing deadlines that could prevent an inventor from securing a patent. Likewise, if a business seeks to file foreign patent applications, a patent attorney will be able to advise on tying back foreign filing benefits to an earlier application filing date, if addressed in a timely manner.

Recordkeeping. In addition, a business should retain and keep accurate records of information associated with the invention, such as research and lab notebooks and designs. These materials are essential to establish the dates of creation for the invention and will be needed if the patent application or registration is challenged.

Employee works. Furthermore, protective measures should be implemented with employees developing inventions. Unlike copyrights, there is no work-for-hire doctrine in patent law. With one narrow exception, all patent right transfers must be in writing. Thus, a business should seek assignment

agreements with its employees before the work begins to secure the rights of the business in the invention. The narrow exception exists for employees that have been "hired to invent." Agreements allow for the smooth transition of ownership rights from the employee to the company. As an incentive to continue developing inventions, companies will often set up a royalty or profit-sharing plan for any invention that proceeds to registration. Also, nondisclosure and confidentiality agreements should be secured with anyone developing, having access to or any knowledge of the invention, or anyone who is engaged to test the invention. CPA firms can use patent information in reviewing businesses' patent portfolios, to analyze and evaluate patent assets, markets and sales and licensing. In addition, CPA firms can also help businesses to evaluate consolidation of core asset holdings to reduce paying expensive patent-maintenance fees, to increase efficiency and/or lower litigation risk.

Trade secrets

Keeping trade secrets a secret. Trade secrets consist of information that is of value to the business owner and would be damaging to the business owner if disclosed to a competitor. A classic example is the Coke formula. From time to time, businesses will enter into negotiations with other businesses or individuals to team up for a business venture. Two parties could agree to create a software program together, work on research development together or work together on a particular project. During these negotiations, each party may disclose information that is considered confidential and could harm the party if disclosed to third parties. This could include trade secrets and other intellectual property. To protect this information, you should make sure you have a nondisclosure agreement in place requiring that both parties use the information they receive specifically for the purpose under the business deal, that they will not disclose the information to any third party without permission and that at the end of the discussion, they will return all confidential information to the other party who owns it. As for CPA firms, confidential and nondisclosure agreements should be signed by employees and third-party companies engaged with the CPA firm. This agreement will provide a remedy against misuse of confidential information by employees or third parties. For example, a CPA firm may review a unique business plan or participate in a presentation to a venture capital firm that may ultimately invest in the idea/business. While a confidentiality or nondisclosure agreement will not prevent the idea from being infringed or misappropriated, it will provide the idea-owner or the CPA firm with some protection and a remedy to recover losses in litigation.

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