

Intellectual Property Harvesting and Auditing

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General Comments

A significant portion of the value of most companies stems from its intangible assets. The knowledge held by its personnel, the systems that the company has set in place to protect and use that knowledge, and the intellectual property rights the company has secured can greatly impact the future good fortunes or misfortunes of the company. While protection of knowledge and information is absolutely required for the success of high tech companies in the biotechnology and computer technology fields, for example, virtually all types of companies in the 21st century will need to be diligent in protecting their intellectual property, and vigilant in avoiding intellectual property entanglements with other companies or individuals.

A basic need for good operations of a company is the ability to identify its own intellectual property. For example, a company may begin to use a trademark to describe a product under development, and continue that use of the trademark on launch of the product or, more commonly with parts or products sold business-to-business, use that trademark in supply or distribution agreements, but fail to seek registration of the trademark or fail to properly indicate its proprietary interest in the trademark through marking practices on brochures, labels, and websites. In another example, a company may develop processes, systems, and software, all of which may constitute statutory subject matter for which patent protection is available, but fail to timely file patent applications because the company has no policy for documenting the creation of this intellectual property and no mechanism for recognizing that the intellectual property surrounding its products and processes are patentable.

Harvesting

Intellectual property “harvesting” can be viewed as a process for timely identifying and protecting intellectual property. In its simplest form, a company may implement a policy of documenting when inventions are created or when software is written. This provides a written record describing the invention and the software. However, the documentation should also include the following types of information:

- an identification of the inventors (or authors in the case of software),
- an identification of any federal grant moneys involved in the project,
- an indication of when public disclosures or sales of products which include the intellectual property are planned,
- an indication of whether non-employee’s were involved in the creation of the intellectual property,

- an indication of whether any proprietary information or products (e.g., a proprietary promoter in a genetics based invention) were used in the creation of the intellectual property, and
- an indication of whether any “open source” computer code has been incorporated into the product.

The documentation should provide enough details describing the product or process which would enable one of ordinary skill in the art to make and use the invention. Drawings, where appropriate, should be included. Test data, where appropriate, should be included. Further, the documentation should be signed and dated by the inventors or authors, and should be signed and dated by a witness that can understand the information being described. Finally, the documentation should be marked as being “Confidential and Proprietary”, and should be maintained as a confidential document of the company.

In order to “harvest” the intellectual property, the company needs to take the additional step of deciding how best to protect the intellectual property. In some cases, maintaining the intellectual property as a trade secret is most appropriate, and in these cases, the company should take precautions not to reveal the substance of the intellectual property to third parties. Confidentiality agreements should be in place if a trade secret is to be discussed with a potential partner or supplier, and these agreements should specifically reference the documentation which is to be provided. In other cases, filing a copyright registration or patent application (or both in the case of some software inventions) is the most appropriate way for the intellectual property to be protected. Copyright registration preserves the ability to seek statutory damages and attorneys fees. Patent protection preserves the ability to exclude others from making or using the invention.

Auditing

An intellectual property audit can be viewed as a process for creating a balance sheet of a company’s intellectual property assets and potential liabilities. The balance sheet should provide

- a listing of the intellectual property (patent or patent application, copyright registration, trademark, trade secret) (the listing should identify both foreign and domestic registrations),
- an indication of the status of the intellectual property (Have maintenance fees been paid? Is the patent application at the early stages of prosecution or have claims been allowed?),
- tracing the origin of the intellectual property to its creation,
- an indication of the nature of the intellectual property right (ownership by assignment; exclusive license; non-exclusive license) together with an indication of the rights of other entities in the intellectual property (government rights; rights of joint-inventors which are not company employees; rights of software developers which are not company employees; rights of other licensees under the same intellectual property)
- an indication of whether ownership interests in the intellectual property have been recorded at the proper agency, and
- where possible, an association of the intellectual property with specific products or services

The audit report should be marked confidential and should be maintained as confidential and

proprietary information of the company.

The audit report might also include various opinion documents and copies of related contracts. Preferably, these opinion documents should be referenced as confidential attachments. The types of opinions which might be included are

- any patentability opinions which were made prior to or during the pursuit of patents on various inventions,
- any clearance or “right to use” opinions which are prepared prior to release of a product (i.e., any opinions which assess the patent position of other companies vis-a-vis the product to be released),
- any validity opinions which identify and analyze the validity of particular patent references,
- any opinions which analyze the strength or weakness or the patent claims of patents held by or patent applications being pursued by the company,
- any opinions addressing claims on the ownership of company intellectual property,
- any opinions addressing a threat of claim of infringement, and
- where applicable, copies of employment agreements, consulting agreements, distribution agreements, or other documents which demonstrate ownership or right to use the intellectual property.

An audit report may be prepared to address a number of situations. The most common instances for preparing an audit report may be to address issues related to the acquisition of the company, the acquisition of a product line or division of the company, or to raise funds for the company based on the strength of its intellectual property either through stock offerings or loans. However, an audit report might also be prepared periodically as a mechanism to identify weaknesses in a company’s intellectual property portfolio and to identify mechanisms for improving the company’s procedures for securing its intellectual property. In addition, an audit report might be prepared when a new administrator joins a company so that he or she can better assess the company assets, or when a company seeks to undertake a licensing or intellectual property acquisition program.

The audit report should provide information which can be used to value a company’s intangible assets. In addition, the audit report can provide a mechanism for assessing a company’s diligence in protecting its intellectual property rights and in avoiding the intellectual property rights of others.

Issues to consider for Patents

Patent Assets

A) Patent Number and Patent Application Serial Number

- Status (pending in foreign countries? Maintenance fees paid? Attorneys handling the case? Prosecution issues)
- Ownership

- invented by the company personnel or invented jointly?
- invented using government resources? (Notification and license)
- Associated with which products sold or planned by the company?
- Personnel in the company associated with the patent or product line

B) Patentable Ideas

- Internal disclosure documentation (brief description, permanent record, corroborated...)
- action plan (additional testing, provisional patent filing, decision on filing or trade secret...)

C) Licensed Patents or Applications

- Exclusive or Non-exclusive
- Field
- Status
- ownership established and recorded in the licensor (warranties of ownership in the agreement)
- personnel in the company associated with the patents or applications or product line

Patent Liabilities

A) Infringement- company's product line and planned products

- clearance searches
- prior assertions by third parties
- length of time on the market
- cross licenses

B) Patent position of major competitors

C) Potential claims by employees, consultants, etc.

D) Exclusivity offered by patent?

E) Unprotected ideas?

- Reissue and Re-examination

F) Regulatory Issues related to product

- Export control licenses required?
- approval of medical treatments

G) Patent Marking

- have products, brochures, and web-sites identified patent numbers protecting a product?

H) Any restrictions on ability to license others

Issues to consider for Copyrights

- A) Is the copyright registration recorded?
 - statutory damages
 - attorney fees
- B) Is the copyright a “work for hire”?
 - If not, is there a specific obligation to assign?
 - employment agreement, consulting agreement, supplier agreement
- C) Does the company have a right to incorporate the subject matter into derivative works?
 - who owns the derivative works?
- D) Has any open source code been incorporated?
 - Incorporation of open source code into a company product may result in dedication of product to public domain
- E) Has any other parties code been incorporated?
- F) Are there any prior obligations to assign the copyright?
 - Ownership warranties
- G) Notice
 - Has a proper copyright notice been used on the copyrighted work?
 - notation on architectural plans
 - notation on computer screens
 - notation in the code
- H) Have “clean room” procedures been utilized?

Issues to consider for Trademarks

- A) Have trademark clearance searches been performed?
 - Foreign and domestic?
- B) Have trademark registrations been obtained or pursued?
 - Foreign and domestic?
- C) Have proper trademark notices been used on products, brochures, invoices, web-sites?
 - ® for registered marks
 - ™ for non-registered marks
- D) Has any follow up on third party misuse of the trademarks been performed?
 - Letters? Resolutions? Settlements?

E) Have the trademarks of other companies been improperly used on products, brochures, web-sites?

Issues to consider for Trade Secrets

A) Documentation and Marking of the Trade Secret

- Identification of who has access to the Trade Secret or to which portions of the Trade Secrets
- Policies and Procedures for protecting Trade Secrets

B) Employment Agreements

- Confidentiality
- Non-compete

C) Confidentiality Agreements

- Specific stated purposes for use of the Trade Secrets
- Proper marking of documents being provided
 - letters identifying what information is being provided
 - follow up letters identifying Trade Secret matters discussed orally
- Record keeping on Agreements

D) Supplier Agreements

- confidentiality
- agreement not to supply custom designed parts to others