

The Basics Of IP Protection & Commercialization Considerations

By Henry Fradkin

Over the past few years, *les Nouvelles* has published many articles that have provided new ways of doing the business of Intellectual Asset Management...and I have learned a lot from those articles. I also have noticed that LES has continued to grow substantially with many new people entering into the IP protection and commercialization fields. So, I wanted to write an article that goes back to the basics, with the objective of briefly providing a summary of various IP protection approaches and then what they mean to commercializing technologies...sort of an IP 101 course.

I have two major caveats. First, I am not an attorney; so, I am not dispensing legal advice. Second, because my background and experience is in the world of technology, I am not going to address trademarks, other than noting them from an IP protection consideration.

And, I actually have one more qualifier, and that is: this is intended to be a relatively “basic” article. It may raise more questions than it answers. But, that’s good as I also intended for this article to induce licensing practitioners to go find the necessary knowledge while improving their own processes to extract value out of their IP portfolio.

Background

Now that we have the preliminaries out of the way, we can get into the “meat” of this article. I believe all of us can agree that the ability of a company to provide superior products and services at the lowest possible cost depends importantly on its implementation of significant new technologies and innovations. Therefore, it is vital that the company take appropriate steps to protect both the background and foreground (new) Intellectual Property inherent in these new inventions. Why? Because...

- This excludes other companies, particularly competitors, from using the inventions and/or provides the legal means to enjoin them from doing so.
- Use of legal rights (see below) can provide business advantages and deters other companies from asserting any claims against your company.
- Publicizing new inventions with their legal protection can provide prestige for the company, and even more so if the company licenses out the technology. Specifically, if another company is willing to

pay for the use of your company’s technology, then the technology must have marketable value.

Types of Intellectual Property

In brief, a company needs to keep in mind how it wants to protect its new innovations and can take several forms:

- **Patents**...that cover a new and useful process, machine, article of manufacture, or composition of matter. The key criteria for grant include: novelty, utility and “unobviousness” (to a person skilled in the field to which the invention relates). “Patents” include: utility patents (the most common covering technical products and processes), design patents (only in the U.S. for any new, original, and ornamental design), plant, and animal patents.

• **Copyrights**...that are used to prevent unauthorized copying of original works of authorship, such as software, literature, music, art, and other works of a creative nature.

• **Trade Secrets**...that include a formula, process, computer program, business plans, test procedures, and business methods. See companion paper for more details on trade secrets.

• **Trademarks**...that can be any word, name, symbol, device, or combination of these which is adopted and used by any business or organization in connection with its offering goods and services and identifies and distinguishes them from goods and services offered by other entities.

Protection Tactics-Patents

The first consideration is whether or not a company even wants to patent a new technology or innovation. If a patent that is in the public domain were to provide enough information to allow another company to copy or design around the claims in the patent, then strong consideration should be given to keeping the innovation as a “trade secret.”

If the company does want to patent the invention, then it is critical that it applies to the appropriate patent office or offices as soon as possible. In the

■ Henry Fradkin, Principal,
ValueExtraction, LLC,
Dearborn, MI
E-mail: henry.fradkin@comcast.net

U.S., the current system is “first-to-invent” so it is vital that people working on the new invention keep very detailed log or notebooks that describe their work, including the *pertinent dates*. The rest of the world works on a “first-to-file” basis. However, the Patent Reform Act of 2006, when passed, may change the U.S. system to match that of the other countries; i.e., first-to-file.

To promote diligence for participating in the patent process, as well as in the defensive publication (below), trade secret and copyright processes, many companies offer an incentive award ranging from monetary rewards to recognition mechanisms; e.g., plaques, company ceremonies, publishing the achievement in a company newspaper, etc.

If a patent is not going to be pursued but a company is worried that another firm could patent it, then the company could consider doing a **defensive publication**. This is a much quicker and less expensive means to avoid being excluded from using an invention by writing an article that is published in the public domain. There even are services that offer an inexpensive way to accomplish this. For example, the IP.com Prior Art Database provides companies with a fast, effective means to publish their innovation into a single, publicly searchable, library indexed collection of prior art. This Database date stamps input and provides evidence for any future trials. And, of course, there are other ways to do defensive publications, such as writing or having someone write an article about the technology for publishing in a magazine.

Commercialization Implications

A strong patent position is an extremely positive factor in a successful licensing or other technology commercialization effort. From a licensing consideration, patent protection provides several important benefits, including the following:

- The ability of a licensor to capture a higher royalty rate because of the capability to (1) provide the licensee with legal protection for his using the technology and (2) control the use of the technology given the “exclusionary” nature of patents.
- It can provide an entrée into selected companies, particularly large Fortune 500 companies that will not deal with another company or entity unless the invention is protected by a patent or patents. This goes back to the first benefit where these large companies do not want to expose themselves to any risk of an infringement action.
- A strong patent position promotes both higher interest and a higher valuation of a company and its ability to obtain funding for development and

commercialization of the technology.

- Having a strong patent position also supports valuation of a company’s technology for use in joint ventures; e.g., contributing the technology with its IP protection instead of only cash.
- Use of a patent or bundle of patents can form a strong licensing package when combined with copyrighted materials and/or know-how (trade secrets) to provide high value for a licensee and thereby provide maximum royalty revenues for the licensor.

Protection Tactics — Copyrights

Copyright protection is automatic and comes into effect as soon as the work is put into a “tangible” medium, including putting it on paper or magnetic (computer) storage. However, prior to an assertion or licensing effort, the company should register the work with the Library of Congress. In any case, if the work is going out to the public, then it should have, at a minimum, a proper copyright notice, e.g., “Copyright (year), Company Name” or “© (year), Company Name.”

Commercialization Implications

While not providing as strong protection as a patent, a copyright still offers a licensor an “asset” to support marketing of a copyrighted technology. Often, this is in the form of software that has no patent protection. In this case, many companies have successfully licensed out software to other companies, often to a software house that has the capability to convert a company’s computerized method into a “generic” version suitable for use by many companies.

In this manner, both the licensee and licensor profit; the licensee through sales or licensing out of the final software product; the licensor through the generation of new royalty revenues. Moreover, licensing out of a software product can have additional benefits to the licensor by having the licensee become its product development source responsible for maintaining and upgrading the software, and thereby potentially reducing associated licensor costs versus in-house work and even allowing the licensor to redirect resources to inventing the next software product invention.

In addition, all forms of copyrighted materials are eligible for deal consideration. For example, while I was at Ford, we licensed out the rights for a training organization to use a Ford copyrighted training manual, to the mutual benefit for both parties.

Protection — Trade Secrets

A trade secret can be any information that derives

independent economic value from not being generally known or readily obtainable. Trade secrets are very different from patents, trademarks and copyrights. An entity can not maintain both a patent and a trade secret on the same invention; they are mutually exclusive. A patent confers exclusive rights to prevent others from making, using or selling the patented subject matter. The trade-off is that the patent, once issued, is published for the entire world to know. Thus, nothing in an issued patent can be a trade secret by definition.

Trade secrets include formulas, pattern, compilation, program, device, method, technique, or process. All of those factors often are considered “proprietary technology and/or information.” For example, courts consider items as the following to be trade secrets: machining processes, blueprints, and stock-picking formulae, customer lists, pricing information, and non-public financial data. Moreover, information such as overhead rates and profit margins that help define a price may be found to be a trade secret even if the price itself is known.

The key tenets to be considered a trade secret are:

- The company must demonstrate that it is doing everything possible to prevent public disclosure; e.g., locking up all key documents, not allowing general access to a manufacturing machine or process, etc.
- It must make sure that such secrets are only disclosed to outside companies after appropriate written secrecy documents have been executed.

And key factors are:

- The extent to which the information is known outside the business;
- The extent to which it is known to those inside the business, i.e., by the employees;
- The precautions taken by the holder of the trade secret to guard the secrecy of the information;
- The savings effected and the value to the holder in having the information as against competitors;
- The amount of effort or money expended in obtaining and developing the information;
- The amount of time and expense it would take for others to acquire and duplicate the information, unless they could easily reverse engineer the technology. This would be less likely in the case of a process versus more possible with a product.

Having said all this, what should a company do to protect its trade secrets? By keeping it secret! There are no forms to fill out or applications to register; no government approval or registration are

required. If the possessor of the secret exercises reasonable means to keep the information a trade secret, then as long as the information stays secret and has economic value, trade secret protection remains available.

Therefore, a company should take reasonable precautions to protect any information regarded as a trade secret. This includes marking documents containing trade secrets as “Confidential” or “Proprietary,” locking trade secret materials away after business hours, maintaining computer security, and limiting access to secrets to people with a reasonable need to know. In particular, a company should:

- Restrict access to the trade secret by preventing unauthorized entry into the facility where the trade secret is kept.
- Obtain non-disclosure agreements (e.g., part of their employment contract) from key employees who came into contact with the trade secret, and conduct exit interviews to remind departing employees of their secrecy obligations.
- Obtain non-disclosure agreements for the trade secret from suppliers and manufacturers, including those who are sub-contractors, raw material suppliers and component manufacturers.
- Make pertinent documents available to suppliers only for the sole purpose of bidding on or manufacturing.
- Mark all materials and drawings related to the trade secret with a proprietary legend, as noted above, restricting their use and disclosure.
- Follow up any oral disclosure with a letter citing the confidentiality of the material discussed and the resulting obligation by the company and/or people to maintain the material as a trade secret. The obligation still holds with an oral disclosure but certainly is made stronger with a written account after the fact.

Courts have repeatedly indicated that the use of nondisclosure agreements is the most important way to maintain the secrecy of confidential information. Without nondisclosure agreements, it is increasingly likely that information considered to be extremely valuable to your business will be deemed to have no legal protection by the courts. Non-disclosure agreements differ depending on the nature and scope of the disclosure and the value of the trade secret. However, all nondisclosure agreements should include a good description of the trade secret, permissible uses of the trade secret material, a duty of confidentiality, a remedy for non-compliance with the agreement (including injunctive relief), and the term of the agreement, which be “forever.”

Commercialization Implications

Because a technology or invention, including product, process and software, is a “trade secret, that doesn’t mean that it cannot be used to generate new revenues or profits through commercialization on the outside. Of course, all of the above protection measures must be followed to avoid losing the trade secret status.

Based on my experience and that of others, trade secrets in the form of technical and/or business know-how have formed the basis of many licensing deals. There is no “silver bullet” as to the proverbial how to ensure no loss of secrecy, but one important action is to try to lock in the licensee into the protection scheme. The best way is money, by having the licensee either make an up-front payment or at least committing to make payments over time. In essence, if the licensee has to pay for use of the know-how, it is unlikely to release this knowledge into the public domain for free.

Further, as alluded to above in the patent section, inclusion of know-how into a technology and/or copyright deal is a strengthening factor. The know-how can help a licensee get the technology or invention into the market quicker than working only from a “bare” patent or copyright, thereby generating sales quicker

for the licensee and payments for the licensor. And, as noted earlier, inclusion of the know-how helps the licensor secure a higher royalty.

A company often provides this know-how as part of a technology transfer to the licensee. Importantly, this requires the cooperation and participation of the activity that created the know-how. Based on both my personal experience and that of many companies with successful technology licensing programs, the best means to secure this participation is MONEY, i.e., developing a reward system for the activity that will do the technology transfer in the form of sharing earned royalties.

Conclusion

Referring back to my introduction, I said that this paper is intended to be an IP protection and commercialization “101” monograph. If I have met my objective, it should have provided new licensing executives and attorneys with considerations and tactics related to helping them progress their technology transfer program and even reminded experienced licensing executives of technology commercialization considerations and opportunities. ■

Memo: IP protection information sources... *Free Advice.com; Nolo.com; Valuation of Intellectual Property and Intangible Assets*, 3rd edition, Gordon Smith and Russell Parr, 2000.