

Cislo & Thomas LLP<sup>®</sup>  
*presents*

# The Manager's Guide to Intellectual Property

SECOND EDITION

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# CHAPTER 1

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## Introduction

### **Why Do the Executive and Entrepreneur Need to Understand Intellectual Property?**

There are two principal reasons why executives and entrepreneurs need to understand intellectual property. The first is lost opportunities. There are many opportunities in any business to increase profits and value by proper utilization of intellectual property laws. The second reason is survival. Infringement of another person's intellectual property can be disastrous, at minimum costing thousands in legal fees, and with the all-too realistic possibility that a business can be shut down.

The following scenarios are real-world examples of these two reasons, showing how proper protection of intellectual property rights can work to your benefit.

#### ***Scenario 1: Monetizing a New Invention***

Two inventors developed a new sample device for extracting pollutants from water for water-testing purposes. They mortgaged their homes to be able to manufacture the product. The leading distributor of such devices agreed to distribute the product and would pay a significant bonus if patent protection was obtained. It was, and the bonus helped pay off the mortgage.

### **What Is Intellectual Property and What Does This Book Cover?**

Under U.S. law, anyone can legally copy anything, unless it qualifies for protection under intellectual property law. The following types of protection are available:

- Patents (Chapter 2)
- Trade secrets (Chapter 3)
- Trademarks (Chapter 4)
- Copyright (Chapter 5)
- Agreements prohibiting competition (Chapter 6)

Each of these will be discussed in this book.

One way to profit from intellectual property is to license it to a third party, or take a license from someone having intellectual property. Licensing is discussed in Chapter 7.

Equally as important in protecting ideas is to avoid infringing the exclusive rights of others. Failure to do so can be disastrous. Infringement damages totaling hundreds of millions of dollars are becoming more common. As a result, this book also provides strategies for avoiding infringement.

If exclusive rights are violated, there are multiple strategies available to stop the infringement. These are discussed in Chapter 8.

A comparison of these different types of intellectual property is provided in Exhibit 1-1.

***Scenario 2: Monetizing a Copyright***

A manufacturer of alarm clocks developed a clock that looked like a truck, and when the alarm went off, a truck horn was heard. The copyright in the truck's appearance was registered. A competitor knocked off the truck design. Enforcement of the copyright by a contingency lawsuit resulted in a substantial recovery for the distributor.

***Scenario 3: Monetizing a Trademark***

A distributor of a food product properly registered its trademark. A foreign company wanted to enter the U.S. market under the same trademark because it was using the mark overseas. The distributor sold the mark to the foreign company for a substantial amount.

These opportunities for monetizing ideas are available to all businesses. The key to monetizing ideas is to obtain exclusive rights in innovations and ideas. Exclusive rights can translate to increased market share and high profits.

For example, a patent on a key product can yield high profit margins. Even better, there can be caravan sales such as spare parts and related products that can be sold along with the key product.

This is the upside of paying attention to intellectual property. The other side is the disasters they can befall a company that conflicts with the intellectual property of another. Recently, a jury awarded Apple over \$1 billion for infringement by Samsung.

**Exhibit 1-1: Chart Of Relationships Between Patents, Trademarks, Copyrights, And Trade Secrets**

Type Of Protection	Utility Patent	Design Patent	Copyright	Trademark	Trade Secret
Subject matter	Functional features of process, machine, manufactured item, or composition of matter	Ornamental designs for article of manufacture	Works fixed in tangible medium of expression. Includes literary, musical, pictorial, architectural, sculptural, and motion picture works	Words, names, symbols, devices, sounds, smells, nonfunctional trade dress	Formulae, processes, products, software, plans, designs, specs, pricing, devices, R&D information, business information
Criteria for protection	Useful; New and "nonobvious"	Ornamental; New and "nonobvious"	Originality; Authorship; Nonfunctional aspects	Used to identify and distinguish goods or services/distinctive	Anything advantageous in business and secret
How to obtain rights	U.S. Patent & Trademark Office	U.S. Patent & Trademark Office	Automatic upon creation in tangible medium; notice and registration help monetary recovery	Common Law: Adoption and Use (secondary meaning can be required)  Federal or State Registration: Application and compliance with statutes	Obtain legitimately under state law

Type Of Protection	Utility Patent	Design Patent	Copyright	Trademark	Trade Secret
Term	20 years from filing date	15 years from date of Federal Grant	Post-1/1/78 works: Life of author plus 70 years	As long as properly used; Federal registration lasts 10 years (if formalities complied with). Renewable for 10-year periods.	As long as it is kept a secret
What infringes	Making, using, selling, offering for sale, or importing devices embodying the claimed invention or using claimed process	Do designs look alike to eye of ordinary observer?	Illegal copying requiring i) access to the copyrighted work; and ii) substantial	Likelihood of confusion, mistake, or deception	Improperly obtain secret or improperly use it or disclose it
Disclosure requirements	Best mode	Best mode	None; Deposit on Publication	Must use	Cannot disclose without confidentiality obligation of recipient or lose trade secret protection
Cost	High, generally thousands	Moderate	Negligible	Low	Cost of maintaining the secret

Type Of Protection	Utility Patent	Design Patent	Copyright	Trademark	Trade Secret
Continuing duties	Maintenance Fee required by the U.S. Patent Office at 3 intervals	None	None	Policing	Keep it a secret
Date protection commences	Upon publication: 2-5 years from filing	Upon issuance: 2-5 years from filing	When fixed in tangible medium	First use; Filing of U.S. intent to use application	First use
Any rights against independent discovery or creation	Complete	Complete	None	Good faith not a defense to infringement, but can limit damages	None
Potential civil remedies	Damages for injury, attorney fees if exceptional; damages can be increased; injunction; pre-judgment interest	Damages for injury or defendant's profit; attorney fees if exceptional; damages can be increased; injunction; pre-judgment interest	Damages, statutory damages, attorney fees, seizure, injunction	Defendant's profits; plaintiff's damages, costs; exceptional case gets attorney fees and increased damages; injunction; seizure for counterfeiting; punitive damages if also unfair competition	Damages, punitive damages, attorney fees, injunction



### **Which Managers Need This Book?**

Many types of managers deal with intellectual property and thus will find this book helpful. Of course, the CEO and R&D managers must be knowledgeable about intellectual property; that is a given. But other managers will likely have cause to deal with intellectual property. Examples of errors by other managers due to lack of knowledge about intellectual property include

- a) a marketing manager who picks a trademark that infringes;
- b) a sales manager who discloses a new product before a patent application is filed, thereby interfering with the ability to obtain patent protection;
- c) an HR manager who fails to have employment agreements requiring assignment of inventions;
- d) an advertising manager who fails to obtain copyright assignments from the advertising agency; and
- e) a purchasing manager who buys a cheaper infringing component rather than the patented component, resulting in an expensive infringement lawsuit.

### **IP To Do Checklist**

The following checklist is your starting point. Use it when starting a new business, considering a new product line, purchasing a business, checking the health of your business, or investing in research and development.

## IP CHECKLIST

### **Patents:**

- Do we have anything worth patenting? [see pp. 25-28 and 36-39]
- Do we screen our publications to avoid putting patentable inventions in the public domain? [see pp. 18-19]
- Does our new product/method infringe any patents? [see pp. 41-44]
- Do we mark our products with patent numbers? [see pp. 34-35]

### **Trade Secrets:**

- Are we using adequate steps to protect our trade secrets? [see pp. 48 et seq]

### **Trademarks:**

- Have we cleared any new marks to avoid infringement? [see pp. 63 et seq]
- Have we registered our marks? [see pp. 66 et seq]

### **Copyrights:**

- Are we using copyright notices? [see pp. 83-84]
- Have we registered our important copyrights? [see p. 85]
- Do we avoid copying the copyrightable works of others? [see p. 87]
- Do we avoid using open source software in our software? [see pp. 87-88]

### **Employment and Consulting Agreements:**

- Invention assignment clause present? [see p. 97]
- Copyright assignment clause present? [see p. 97]
- Does copyright assignment clause have provision for nonemployees or contractors? [see p. 97]
- Trade secret clause present? [see p. 97]
- Clause promising not to use trade secrets of others present? [see p. 97]
- Clause prohibiting use of open source code present? [see p. 97]

### **The U.S. Legal System**

Understanding the U.S. legal system will help you understand how to monetize ideas. The United States has a dual legal system made up of the federal government and the individual 50 state governments.

With few exceptions, patents and copyrights are the subject of the federal system. The U.S. Constitution gives the federal government exclusive control of patents and copyrights. The only significant exception is questions of ownership, which generally are issues of state law.

Trademarks and trade secrets are subject to both federal and state law.

This book for the most part deals with U.S. law and the U.S. legal system. However, intellectual property protection is similar in most countries, so managers, no matter where located, will find this book useful. It is always advisable to consult with local counsel due to the differences in legal systems between countries.

### **Summary**

The previous chart provides a useful summary of the different ways to protect intellectual property. Detailed information about each type of intellectual property is provided in the chapters that follow.