

**Executive MBA
guest lecture on**

Intellectual Property Law

Saturday, March 15, 2002

**Michael J. O'Hara, J.D., Ph.D.
(402) 554 - 2823
mohara@mail.unomaha.edu**

<http://cba.unomaha.edu/faculty/mohara/web/ohara.htm>

**INTRODUCTORY COMMENTS
and
REVIEW MATERIAL**

Introduction to Intellectual Property

FOUR FORMS

The four forms of intellectual property are:

PATENTS

COPYRIGHTS

TRADEMARKS

TRADE SECRETS

- | | |
|----------------------|---|
| PATENTS | protect ideas
reduced to physical practice |
| COPYRIGHTS | protect expressions of ideas |
| TRADEMARKS | protect marks that
identify
a source of goods or services |
| TRADE SECRETS | protect
commercially valuable
generally unknown
information
reasonable efforts to protect |

The **public domain** contains all knowledge that is not protected by intellectual property law.

All **intellectual property law** provides **protection** that is **limited**, either in **duration** (e.g., patent and copyright) and/or in **scope** (e.g., **FAIR USE** in copyright).

Unauthorized use of protected intellectual property is an **infringement** of the property owner's rights.

ECONOMIC SIGNIFICANCE OF INTELLECTUAL PROPERTY POSITIVE VALUE

Intellectual property can create a **competitive advantage**.

The competitive advantage may come in the forms of **cost reductions and increased revenues**.

Intellectual property can be the vary basis of the **firm's niche**, and may be the most important **asset** of the firm.

ECONOMIC SIGNIFICANCE OF INTELLECTUAL PROPERTY NEGATIVE VALUE

Intellectual property may be so **valuable and portable** that the firm becomes a **takeover target**.

R&D expenditures rarely can be justified using **short term financial analysis**.

All firms in an industry will be tempted to become **"free riders"** on the R&D of others.

If many firms succumb to the temptation, then the firms and the **industry can stagnate and die**.

The type of and scope of property rights vary **between the four forms of intellectual property**.

Once created, intellectual property is transferable via the ordinary law of contracts and (*intangible*) personal property.

Once protection terminates, or if protection is not properly obtained, then the intellectual property reverts to the **public domain**.

Contract negotiations and drafting are critical.

Who owns what is largely set by contract.

The **employment** contract (*note: not agreement*) will play an important role.

The **written** and **signed** employment contract will be most important.

Seeking to be **objective**, both contracts and evidence can be either express or implied.

When referring to contracts,

EXPRESS

all terms known by the parties'

WORDS

oral

or

written

IMPLIED

all terms known by the parties'

acts

words, and/or

circumstances.

All express contracts are implied,
but not all implied contracts are express.

An "agent" **acts for and acts instead of** the "principal" when the agent acts **within the "agents" scope of authority.**

The "agent" is **not acting personally**, rather, the "principal" is acting.

An agency is created by **express or implied** acts of the parties

the "principal" must act

agreement between the agent and principal

not necessarily a contract

capacity needed by "principal"

consideration not needed by either

Communications between an "agent" and a "principal", at a minimum, are confidential. Only some are privileged.

confidential v. privileged communications

PRIVILEGED: attorney - client

If **past action**, then absolute.

Court can **not** compel testimony.

If **future and criminal**, then attorney may have prior obligation to disclose.

CONFIDENTIAL: accountant - client

Court may compel testimony.

Otherwise, disclosure is a breach of a fiduciary duty.

Common Law of Contracts: reasonable expectations

Old Common Law

all assignments and delegations
violate the parties reasonable expectations.

New Common Law: freedom of assignment

most delegations
violate reasonable expectations

most assignments
do **not** violate reasonable expectations

However, each party is material
in a personal services contract.

Separation of Powers,
in order of importance,
from top to bottom and from left to right

Individual v. Government

Federal v. State

Within Government's Three Branches

legislature: makes law

executive: enforces law

judiciary: interprets law

JUDICIAL REVIEW

is the power to declare act of either the
Legislative and Executive
unconstitutional.

PROCESS versus SUBSTANTIVE

DUE PROCESS

notice
and
hearing

both notice and hearing must be **proportional**
to the interest(s) involved
life, liberty, and property

Only government must provide due process.

FEDERAL GOVERNMENT

COMMERCE CLAUSE:

commerce among the several States

pre - 1937 direct **Effect (result)**

transportation,
but not manufacturing nor retailing

*post- 1937 close and substantial **Affect (cause)***
transportation AND manufacturing

core powers
penumbras
emanations

tree
shadow
breeze

transportation
manufacturing
retail

Intellectual Property: FEDERAL versus STATE

Patents and copyrights are federal.

In the U.S.A. *Constitution*, Art. I, Sec. 8, cl. 8 the States granted Congress the power

"To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

FEDERALISM PRESUME CONCURRENT POWERS

State's POLICE POWER

power of the State to regulate to protect the People's

health
safety
morals
and
general welfare

There is no federal Police Power.

SUPREMACY CLAUSE, Art. VI, ¶ 2:
preemption doctrine

Art. VI, ¶ 2 also is the source of
Judicial Review.

Preemption is NOT favored,
but MAY be allowed IF:

1) clear intent (silence?) of Congress AND
national interests outweigh State interests;

OR

2) express intent of Congress AND
need for uniformity.

CONCURRENT POWERS UNLESS DIRECT CONFLICT

PATENTS

protect ideas
reduced to physical practice

COPYRIGHTS

protect expressions of ideas

TRADEMARKS

protect marks that
identify
a source of goods or services

TRADE SECRETS

protect
commercially valuable
generally unknown
information

The **public domain** contains all knowledge that is not protected by intellectual property law.

All **intellectual property law** provides **protection that is limited**, either in **duration** (e.g., patent and copyright) and/or in **scope** (e.g., **FAIR USE** in copyright).

Unauthorized use of protected intellectual property **is an infringement** of the property owner's rights.

PATENTS

PATENTS

the **types** of patents,

what **rights** does a patent confer on the owner,

what is **required to obtain** a patent, and

what is the **duration** of a patent.

TYPES OF PATENTS

There are three types of patents:

UTILITY PATENTS

useful and functional aspects of technology
this is typically what is meant by "patent"

DESIGN PATENTS

original **appearance** or ornamental aspects of
useful article, but not functional

aspects

PLANT PATENTS

invent or discover a new variety of plant, and
asexually reproduce

To obtain a patent you must disclose your invention in your application.

RIGHTS OF PATENTS

A patent is a **legal monopoly**.
The patent owner has the legal right to exclude.
You may **EXCLUDE** others from:
MAKING,
USING,
SELLING, and
IMPORTING.

DURATION: patent is a legal monopoly of
twenty (20) years; but **maintenance fees** are at
3 1/2 years,
7 1/2 years, and
11 1/2 years.

REVERSE ENGINEERING

does **not strip** the patent owner of any
existing patent rights.
NOTE: this is the reverse of the trade secret rule.

Recall **disclosure** in application.

The USA is unlike the rest of the world
on the issue of a the race to the patent office.

USA	=	first to invent
rest of world	=	first to file

Reverse engineering may enable first to file
so that
first to invent no longer may practice the technology.

TO OBTAIN A PATENT

Your invention must satisfy:

- subject matter,**
- genuineness,**
true inventor (i.e., human) must sign
- usefulness,**
- novelty, and**
- not obvious in light of current technology.**

Genuineness and usefulness are easy to satisfy.

PATENTABLE SUBJECT MATTER

INCLUDES

- process
- machinery
- manufacture
- composition of matter

EXCLUDES

- laws of nature
- physical phenomena
- abstract ideas
- printed

GENUINNESS

"hired to invent" if prior, written contract

Patents require a human inventor.

Employees own patents unless hired to invent.

An employee is presumed to be outside the scope of authority unless a prior, written, signed contract.

NOTE: this is the reverse of the copyright rule.

USEFULNESS

very simple to satisfy

NOVELTY

view novelty as a **bar** to patent

look for a lack of novelty

show not novel by . . .

printed publication anywhere in the world
public use in USA
on sale in USA

NON - OBVIOUS

Must be not obvious, to a person of ordinary skill in the art, in light of current technology.

More than novel.

Ask three questions.

1. What are the **differences**?
2. What is the **ordinary skill** level?
3. Would the **difference** be **obvious**?

Your application must disclose so as to enable the **best method of practice**.

RIGHTS OF PATENTS

A patent is a **legal monopoly**.

The patent owner has the legal right to exclude.

You may **EXCLUDE** others from:

MAKING,

USING,

SELLING, and

IMPORTING.

DURATION OF PATENTS

A patent is a legal monopoly for **twenty (20) years**.

Prior to GATT, the USA used a 17 year term. Prior to GATT, the 17 year term could be extended to compensate for regulatory review by the F.D.A.

The 20 year term will be cut short unless the patent owner pays "**maintenance fees**" at
3 1/2 years,
7 1/2 years, and
11 1/2 years.

COPYRIGHT

COPYRIGHTS

protection of the expression of an idea, rather than the idea

exclusive ownership right to expression

ORIGINAL

works of authorship **FIXED**
in a **TANGIBLE MEDIUM** of expression
from which works may be
PERCEIVED, REPRODUCED, or otherwise
COMMUNICATED.

COPYRIGHT SUBJECT MATTER

literary (e.g., computer program)

musical

dramatic

choreographic

pictorial & sculptured

motion picture

sound recording

architectural work

compilations of data

major international fight in late 1996:

is "sweat of the brow"

equal to **originality**?

computer chip masks

AUTOMATIC COPYRIGHT

REGISTRATION IS NOT NECESSARY, but
registration must precede
filing a copyright infringement suit.

RIGHTS OF COPYRIGHTS

EXCLUSIVE RIGHT TO:

- * **COPY,**
- * **prepare DERIVATIVE works,**
- * **DISTRIBUTE,**
- * **PERFORM works in public, and**
- * **DISPLAY works in public.**

DURATION

human author
life + 70 years,
corporate author
creation + 120 years,
publication + 95 years

In 1998, Congress added 20 years.
Is more than 100 years "limited"?

WORK - MADE - FOR - HIRE

Employers

are the "author" for works created by
employees **within scope of employment,**
unless there is a signed contract prior to creation.

In contrast, principals are not authors.
Independent contractors are the "author"
unless there is a signed contract prior to creation.

NOTE: reverse of patent hired to invent rule.

EXCLUSIVE COPYRIGHTS LIMITED BY:

FAIR USE (a major limitation),

1. **purpose of copy**
non-profit in-class educational use
2. **nature of the work**
books get more protection than data
3. **substantiality of the copying**
small portions versus whole
and (*but, in effect, an "and/or"*)
4. **effect on the market**
portion of the potential market for copies

Both Fair Use and parody are part of the public domain, and outside of the legal monopoly granted by a copyright.

Fair Use is statutory, while parody springs from constitutional law. Parody is a 1st Amendment comedic mimicking. *Pretty Woman*

NOTE: reverse of trademark parody rule.

Digital Millennium Act of 2000 makes it a felony to defeat security device, even if use after defeat is fair use

Other copyright Infringement defenses
Merger Doctrine

If an idea has a limited range of feasible expressions (*e.g., computer menu*), then the merger doctrine requires nearly virtually identical copying as proof of infringement.

Scenes a faire

Some literary contexts are such commonplace ideas (*e.g., broad plot lines*) that these *scenes a faire* are not protectable.

TRADEMARKS

Under the federal Lanham Act, federal registration with the Patent and Trademark Office (www.USPTO.gov) establishes **priority** and **scope of protection:** more than one source may have the right to use a mark.

Acme (fill in type of firm)

TRADE MARKS

are exclusive right to use a specific MARK on a product or service to **IDENTIFY** a SOURCE.

Gain exclusive right by use by **AFFIXING** the mark.

Federal protection is national.
State protection is limited to area
in the State where the mark has been used.

A prior federal registration of a mark
PREEMPTS subsequent State trademark rights.

BUT prior State use or registration
is not preempted by subsequent federal
registration.

To obtain federal protection the applicant
must use or
intend to use
(e.g., investment in marketing plan)
in interstate commerce.

Trademarks are for products;
Service Marks are for services.

Marks are valid as long as they are used.

PROTECTABLE MARKS:

Identify the source,
not the name of the item
(e.g., Frisbee v. frisbee
Thermos v. thermos)

fanciful words,
personal or geographic names,
symbols,
slogans,
shapes,
colors, or
scents.

DISTINCTIVENESS

inherently distinctive
fanciful
arbitrary
suggestive

not inherently distinctive = descriptive
descriptive is protectable
if secondary meaning

not distinctive
generic

LIKELIHOOD OF CONFUSION

as to the source are **not permitted**.
Focus on the consumer.

In 1999, Congress adopted an **anti-dilution** act
for **famous** trademarks and to stop cybersquaters.

Marks are to aid the consumer,
accordingly,
parody of a trademark is NOT permissible.
Mutant of Omaha

NOTE: reverse of copyright parody rule.

TRADE SECRETS

The elements of the **UTSA definition** of
"trade secret" are:

INFORMATION

independent **ECONOMIC VALUE** from secrecy

REASONABLE EFFORTS TO MAINTAIN SECRECY

Trade secrets can offer protection that
patents and copyrights cannot.

Subject matter nearly unlimited.

Duration of protection is as long as
the secret stays **generally not known.**

Trade secrets need **not** be **exclusive.**

Protection against **improper taking,**
either because the taking is
unlawful or is improper under the circumstances.

Trade secrets
are creatures of
state and common law.

In late 1996,
Congress passed a criminal statute dealing with
international industrial espionage.

Implicitly, the Art. I. sec, 8, clause 8 prohibits
federal trade secrets
(*i.e., neither exclusive nor limited time*).
However, at the outer edge of Commerce Clause,
where States are implicitly preempted,
a residue of federal trade secret power exists.

REVERSE ENGINEERING is a proper taking.

Recall that trade secrets are not exclusive.

The discovery of the trade secret
by another does not, by itself, end your trade secret.

However,
the general disclosure of your trade secret
by any person,
including an unlawful disclosure,
does end your trade secret.

NOTE: reverse of patent reverse engineering rule.

Courts **favor employERs** is allocating ownership of
trade secrets created within an agency context.

Inevitable Disclosure Doctrine
might bar
employEE from working
with any other employER in the industry

Far closer to copyright Work Made for Hire rule
than to the
patent Hired to Invent rule.

**PUBLIC DOMAIN
and
ANTI-TRUST LAW**

PUBLIC DOMAIN

The public domain includes all knowledge

[A] prior to appropriation of that knowledge by an owner of intellectual property;

[B] outside the scope of the intellectual property during the duration of the IP;

and

[C] after the duration of the IP.

Any one may freely use any knowledge that is in the public domain.

Intellectual property creates limited rights.

Some of these limited rights are legal monopolies.

A legal monopoly may create duties as well as rights for the owner of the legal monopoly.

The existence of the legal monopoly may make it easier to prove the owner unlawfully restrained trade.

Anti-trust law

Both the federal and the State governments make it both criminally and civilly actionable to **impermissibly injury competition** or to **destroy competition**.

Covenant not to Compete

ancillary to legitimate business interest(s)
reasonable time and area

Nebraska: one year & one county

reform versus **sever** versus **void**

Anti-trust laws

Rule of Reason

proportional to your
legitimate business interest(s)

Per Se Unreasonable

price fixing,
horizontal division of territories,
group boycotts,
tying