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TECH LAW L E T T E R



SO, WHAT INTELLECTUAL PROPERTY DO YOU OWN?

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Today about 75% or more of a typical company's assets are intangible. Such assets include intellectual property ("IP") in all of its various forms. The four major types of IP are patents (inventions, including business methods); copyrights (including websites and product manuals); trademarks, service marks, and domain names (all being indications of origin and quality); and trade secrets (confidential information that gives its owner a significant advantage in business).

License agreements are another type of IP asset. Such agreement can be inbound (what you have licensed *from* others) or outbound (what you have licensed *to* others). The key provisions of license agreements include the scope of license, grounds for termination, representations and warranties, indemnification, limitation of liability, and assignability. Agreements with suppliers, customers, and employees (whether nondisclosure and/or noncompete agreements) also represent IP assets.

Although strictly speaking not IP assets, privacy policies and policies on data collection, storage, and use factor into the value of a company's IP. Such policies affect IP because of the broad national, state, and even international regulatory framework that applies to them. That frameworks includes:

- Children's Online Privacy Protection Act ("COPPA");
- Electronic Communications Privacy Act;
- California Online Privacy Protection Act; and
- European Union Directive on Data Protection.

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THE GROKSTER DECISION AND COPYRIGHT INFRINGEMENT

Kevin A. White



In its recent decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.* the U.S. Supreme Court held that technology providers that enable copyright infringement by others can be liable in certain circumstances for contributory infringement even if their technologies have substantial non-infringing uses. Accordingly, providers of interactive services and software should now take greater action to comply with "safe harbors" that can help them avoid liability for copyright infringement.

For instance, the Digital Millennium Copyright Act creates safe harbors (in most cases) for "interactive services providers" that engage in one or more of the following online activities: (1) transitory digital network communications; (2) system caching; (3) storing information at the direction of users; (4) use of information location tools; and (5) certain non-profit activities of educational institutions. To secure this safe harbor immunity, however, a provider must not have actual knowledge of infringement, must not exercise control over content (or if it does exercise control, must not receive a financial benefit directly attributable to infringement), must maintain, publicize, and enforce a policy to terminate the activities of repeat infringers, and upon notification, must respond expeditiously to remove or disable access to infringing material. Taking these actions would go far in negating any evidence that one is actually promoting or "inducing" infringement.

A few years ago Napster was found liable for contributory copyright infringement for having constructive knowledge that its users employed Napster web sites to infringe music copyrights and because a key component of Napster's business strategy was to encourage such infringement. After Napster's downfall Grokster and other companies sought to fill the void and respond to consumer demand for music- and movie-swapping capability, notwithstanding the legal risk.

CONTINUED ON BACK COVER

SO, WHAT INTELLECTUAL PROPERTY DO YOU OWN?

CONTINUED FROM FRONT COVER

Every business person knows what a financial audit is. But what about an IP audit? An IP audit consists of a comprehensive review of a company's IP assets, related agreements, and relevant policies and compliance procedures.

Because IP now represents such a large portion of business assets, IP audits matter much more today than they did 25 years ago, when about 80% of a typical company's assets were tangible (inventory, machines, etc.). The reason for the change is the rapid development of the "information economy." This trend will likely continue as the rate of technological development continues to increase. The bottom line is that *IP audits increase the current and potential value of a company.*

What do IP audits do? First, they verify rights in IP assets. Second, they verify adequate licensing coverage and protection. IP audits also verify the adequacy of relevant agreements and verify compliance with applicable laws and regulations. In addition, IP audits identify problems to fix and issues to address going forward and enable the development or confirmation of IP maintenance schedules.

A key time to conduct an IP audit is during the early stages of company's formation, which is especially important in the case of core technologies. For example, in the classic instance of two people forming a software company in a garage, each person should assign his or her rights in the software and related documentation to the company. Otherwise, "Acme Software, Inc." may not actually own the rights in the software that it sells.

Another crucial time to conduct an IP audit is during the development of a new product. Did you know that if you engage an independent contractor to create a website or prepare other copyrighted materials for you, you do not own the copyright in those materials without a written assignment from the contractor? Moreover, did you know that if one of your employees invents something patentable, you probably do not own the patent rights absent an express assignment of them? (And you may not even learn about the invention unless the employee has an express contractual obligation to disclose to you all of his or her potentially patentable creations.)

When else should you conduct an IP audit? Certainly before carrying out a significant acquisition of a new technology or product. For example, if you buy a company's trademarked technology or product, who should own the relevant trademarks or service marks? And if you acquire those marks, how do you put the world on notice of the change in their ownership?

One should also conduct an IP audit whenever there is a major change or development in relevant law. For example, a signifi-

cant change in COPPA might mean that website owners who collect personally identifiable information from visitors to their sites would need to conduct IP audits.

The classic case of when to conduct an IP audit is before buying or selling a business. What if the business you're buying doesn't own all the IP it claims to own? Or what if the IP it does own is licensed to a competitor of yours?

Here is a summary of the procedures used to conduct an IP audit:

- Define scope—comprehensive or limited to particular areas;
- Searches of public databases (patents, copyrights, trademarks, domain names);
- Customized questionnaire;
- Review of agreements (templates often used);
- Interviews with key personnel; and
- Visit to client's offices, if possible.

The results of an IP audit usually include a detailed written report divided by subject areas, including an executive summary of key issues and schedules of patents, copyrights, trademarks, and domain names. Also, there should be a summary of any potential problems with agreements, policies, or procedures and recommendations for action going forward.

In summary, virtually every company needs an IP audit sometime. IP audits can be designed to suit your business and budget. Such audits almost always uncover problems, but they pay for themselves by increasing the company's value. The key point to remember is that not conducting an IP audit when indicated can cost far more than the price of the audit. ■

Announcing the next Hampton Roads International Trademark Association ("INTA") Roundtable on October 27

Topic: Trademark Litigation

On October 27 the firm will host the next INTA Roundtable in the Hampton Roads area at The Harbor Club in Norfolk.

The world's largest trademark organization, INTA consists of 4,500 trademark owners and professionals from over 180 countries.

**To register for the Roundtable visit
the Association's web site at www.inta.org.**

PATENT INFRINGEMENT OPINIONS: DO YOU NEED ONE?

Kevin W. Grierson



The term “patent attorney” probably makes most people think of lawyers who prepare patent applications and submit them to the U.S. Patent and Trademark Office (“PTO”). However, patent attorneys are also asked to provide *infringement opinions*, which are detailed evaluations of a product, process, or method to determine whether it infringes the claims of a patent.

Businesses seek infringement opinions for a variety of reasons. For example, if a company is planning to launch a new product, especially in an industry where patents are common, a company will often request a patent “clearance search.” Such a search reviews existing patents and published patent applications to determine whether a third party is claiming rights that might affect the new product or the process of making it. Conducting a clearance search does not guarantee that all relevant patents and patent applications will be located (in part because patent applications are not made available for public review until at least 18 months after filing), but a clearance search will give a company an opportunity to avoid potential infringement issues related to all publicly available patents and applications.

Sometimes a company first learns about potential infringement when it receives a “cease-and-desist” letter from the patent holder (or the holder’s counsel). More often, before being approached by a patent holder a company hears about other companies in the same industry being sued or receiving cease-and-desist letters.

Patent holders with limited resources often try to “pick off” infringers one at a time, to build up licensing or settlement revenue. Whether they have been approached or not, targets (and potential targets) of such claims usually want to know whether they may be infringing the relevant patent before agreeing to comply with the cease-and-desist demand or negotiating a royalty payment to avoid a suit.

When a patent infringement opinion involves a known patent, the patent attorney will carefully evaluate the claims of the patent and compare them to the product or process in question. The patent attorney will also evaluate the PTO’s records for the patent—called, for historical reasons, the “file wrapper”—to determine whether the patent holder gave up particular interpretations of patent claims to convince the PTO examiner to allow the patent to issue.

An infringement opinion (sometimes referred to as an “opinion of no infringement” when it so indicates) can give a business

a good understanding of the risks of continuing to manufacture its goods in the face of a claim or potential claim of patent infringement. If the patent attorney finds that infringement is likely, the client may wish to negotiate a license rather than litigate the infringement claim(s). If the patent attorney gives an opinion of no infringement, the business can use the opinion to refute the patent holder’s claims.

Any business seeking a patent infringement opinion should keep in mind that such an opinion is not a cure-all. Patent applications remain confidential for at least 18 months after filing (and some are never published until the patent issues), so there is always the possibility that a search may not reveal applicable patents.

Even an evaluation of an existing patent finding no infringement is not a guarantee that the business will not be sued, and the final decision regarding infringement would then be left to a court. However, if a patent attorney provides a thorough opinion finding that the business’ product or process does not infringe the patent at issue, that opinion can serve as a defense to a claim of willful infringement—for which damages can be tripled—even if a court later disagrees with the opinion.

Patent infringement opinions require careful, thorough analysis, and the cost can be significant. Such opinions are, however, a good deal less expensive than defending a lawsuit for patent infringement, and they are more cost-effective than paying a royalty to a patent holder when such payments are not warranted. ■

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THE GROKSTER DECISION AND COPYRIGHT INFRINGEMENT

CONTINUED FROM FRONT COVER

Grokster planned merely to distribute software that enables peer-to-peer file swapping and did not plan to host any actual file-swapping sites. Under the precedent of *Sony Corp. of America v. Universal City Studios, Inc.* (the case in which the U.S. Supreme Court held that VCRs are legal), Grokster was initially able to avoid liability by showing that its software had significant non-infringing uses, *i.e.*, that one could use the software to swap files that are not subject to copyright protection.

However, in its *Grokster* decision the Supreme Court limited the applicability of the *Sony* case and thus undercut Grokster's basis for avoiding liability. The Court's reasoning was that, even if there are non-infringing uses to a technology, a producer that is "winking and nodding" toward facilitating infringement cannot hide behind the argument that it has no *actual* knowledge of infringement. The Court noted that Grokster had marketed itself as an alternative to Napster and thereby "actively induced" infringing uses of its product.

Some commentators have argued that the Supreme Court, in applying this novel "active inducement" theory, completely departed from *Sony*. However, *Sony* did not create a safe harbor for all situations in which a technology that has substantial non-infringing uses is nevertheless widely used for copyright infringement. Unlike Grokster, *Sony* had not created and marketed VCRs primarily to serve infringing purposes; the primary (and substantial) non-infringing use for VCRs, at least at the time of the *Sony* decision, was "time shifting," *i.e.*, taping a television program to view at a later time. Therefore, the *Grokster* Court distinguished *Sony*, stating that nothing in the earlier case requires ignoring evidence of intent to promote infringement.

Apparently, the presence of substantial non-infringing uses is now viewed as merely permitting an inference that the producer does not intend that its product will be used to infringe copyrights. Where the evidence shows more than simply the producer's knowledge that its product *may* be used to infringe and reveals statements or actions reflective of a knowledge and intent that the technology be offered primarily to *promote* infringement, contributory liability may be found. ■

PROSPECTIVE CHANGES IN U.S. PATENT LAW

Catherine S. Branch, Ph.D.



Patent practice is constantly changing—by rule, statute, or case law. But this fall the U.S. House of Representatives will consider a bill that, if passed, will be the most expansive revision of patent law since the 1952 Patent Act. Earlier this summer Rep. Lamar Smith (R.-Tex.) introduced House bill 2795, which could change not only how patents are prosecuted but also litigated.

For example, the original version of H.R. 2795 contained a provision that would eliminate a patent holder's right to obtain an injunction against a patent infringer and would instead require the infringer to pay a licensing fee to continue practicing the invention. The current substitute bill does not contain the provision eliminating injunctive relief, but that provision could be reinserted as the bill is considered.

Current U.S. patent law provides that, in a contest between independent inventors, the first to invent prevails. Under H.R. 2795, however, the first inventor to file an application may receive the patent, not necessarily the first to invent. This change will harmonize U.S. patent practice with international practice, allowing the United States to enter more easily into international patent treaties.

At present an inventor must disclose the best mode of practicing his or her invention at the time of filing, preventing an inventor from indefinitely keeping confidential the best way of practicing the invention. H.R. 2795 would eliminate this common issue in infringement litigation, which could reduce litigation costs.

H.R. 2795 is still very much a work in progress. On September 15 the House Subcommittee on Courts, the Internet, and Intellectual Property—chaired by Rep. Smith—considered a substitute version of H.R. 2795. The Senate Subcommittee on Intellectual Property has held several hearings on the proposed patent reforms, but no bill comparable to H.R. 2795 has yet been introduced in the Senate. ■

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