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INTELLECTUAL PROPERTY

Conducting an IP Audit When Laws Change



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For companies of all sizes, intellectual property is often the company's core asset. It is critical that such a company proactively take inventory of its IP. This is even more critical when IP laws change.

Two recent developments have or will significantly change IP law. First, the Leahy-Smith America Invents Act (AIA), enacted in September 2011, will change the U.S. patent system in fundamental ways as of March 2013. Second, earlier this year, New Jersey changed its trade secret laws by adopting a uniform trade secrets act. Due to these changes, the extent and strength of a company's IP may be impacted.

By understanding what it has in the face of changing laws, a company can take steps to maximize the value of its IP and fill any gaps in its protection scheme. An IP audit can be a tool to help construct a sturdy IP portfolio that can be the foundation upon which to build the business.

IP's Importance to Business

Regardless of form, IP is the foundation that many businesses rely on. Whether it provides a competitive edge or acts as a brand identifier, IP works to attract customers and distinguish a company from its competition.

IP may also serve as a means to preserve a company's share of existing markets or to create new markets. For example, Google paid \$12.5 billion for a division of Motorola that owned a large portfolio of patents covering mobile phone technology, thereby enabling Google to protect its Android market by suing competitors such as Apple.¹

Conversely, undervaluing IP or ignoring the IP developed by competitors can lead to catastroph-



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ic results. For example, earlier this year, Kodak filed for bankruptcy in part because it could not compete with digital photography, despite having pioneered the technology in the 1970s.²

To efficiently and effectively use its IP, a company must audit its existing IP, survey the IP of its competitors, and appreciate how such IP will be affected when IP laws change.

The IP Audit

An IP audit can take many different forms, but generally, would proceed in three steps. The first step is to review existing corporate IP systematically, which should help reveal any potential issues. The second step is to establish procedures for developing, evaluating, and protecting future IP. The third step is to survey competitive IP. When conducting an IP audit, counsel should consider auditing each type of IP (such as patents, trade secrets, trademarks, and copyrights), regardless of whether recent changes in the law have affected such IP.

Patents. Patents are protected under federal law (Title 35 of U.S.C.), with certain patent misuse

claims brought under state law. Utility patents protect inventions and grant the right to exclude others from practicing the invention for a finite period (20 years from application filing). Design patents cover ornamental, non-functional articles of manufacture, and have a term of 14 years from the patent grant.

On March 16, 2013, as a result of the AIA, the United States will switch from a "first to invent" system to a "first to file" system.³ Currently, the U.S. issues patents under a "first to invent" system, meaning an inventor can claim rights to an invention prior to the filing date for the patent application. A "first to file" system, by contrast, awards a patent to whoever first filed the patent application for the invention, regardless of who first invented it (unless it can be shown that the first patent applicant derived the invention from someone else).

In preparation for this switch, corporate counsel may wish to conduct an IP audit to determine whether there are any concerns caused by the "first to file" system. Currently, many companies take a significant amount of time to evaluate the value and commercial viability of their inventions prior to filing a patent application for them, since a "first to invent" system does not automatically reward early filing. However, a "first to file" system will likely require companies to be more diligent and timely in filing patent applications shortly after new inventions are developed. Filing early and often will be important, but there is another way to obtain the necessary time to assess the invention while avoiding the risk of losing an invention to an earlier filer, by filing a "provisional application."⁴

Such provisional applications provide a relatively inexpensive and quick mechanism to secure a filing date, as long as a "non-provisional" application is filed within 12 months. If a non-provisional application is not filed within 12 months after the provisional application, the provisional applica-

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tion is considered abandoned, but remains confidential. Thus, filing a provisional application can give a company 12 months of breathing room to further evaluate whether the invention should be patented, kept as a trade secret, or abandoned.

The AIA also has broadened the definition of prior art under 35 U.S.C. §§102(b) and 102(e) to include foreign public use (instead of only domestic public use) and U.S. patents and published applications as of the effective U.S. filing date (instead of the actual U.S. filing date), meaning that such patents and published applications may serve as prior art as of an earlier foreign filing date.⁵ Therefore, a company should consider assessing whether there is an organized procedure to collect and maintain potential prior art, and whether the procedure captures this new potential prior art.

One way of accomplishing this is to centralize the management of all patent matters by establishing a patent coordinator or committee with responsibility for reviewing invention disclosure forms, deciding (in conjunction with IP counsel) whether to seek patent protection, and maintaining a file of all company patents, patent applications, supporting data/materials, and prior art, including related patents and publications. A diligently maintained patent file overseen by dedicated staff can help ensure that the company is fully aware of potential prior art that may at some point be used against the patent portfolio.

Moreover, under a "first to file" system, certain types of pre-filing information, such as invention ownership and invention disclosure forms, may become more important in light of a new mechanism created by the AIA called a "derivation proceeding." A derivation proceeding is a way for a later-filing patent applicant to challenge an earlier application by asserting that the invention claimed in the earlier application was derived from the later-filing applicant.⁶ It is therefore important for a company that seeks to prove derivation establish ownership of the invention.

One way to accomplish this is to enact policies to ensure that the company obtains ownership of all corporate inventions. Under U.S. patent law, ownership resides in the inventor. Thus, it may be beneficial for a company to audit existing practices and establish a default practice whereby employees contract to assign their IP rights to any future inventions to the company at the time of their employment.

An audit program may also include mechanisms to ensure that any new IP that the company develops will not infringe any third-party patents. For example, prior to undertaking a significant investment to develop or market a new technology, the company should consider whether to obtain a "freedom to operate" opinion from IP counsel.

Such an opinion would reveal any infringement risks and any possible defenses to allegations of infringement.

Although the AIA excuses a party's failure to obtain such opinions (see H.R. 1249 §17), they may be beneficial in order to utilize other AIA provisions, such as the modified defense of prior commercial use.⁷ The defense of prior commercial use requires that the alleged infringer commercially use the subject matter at least one year before the filing date of the patented invention. Prior to the enactment of the AIA, this defense was limited to business methods. A concise opinion of counsel could address such newly modified defenses.

Trade Secrets. Trade secrets are protected under state law, and, in limited circumstances, under federal law.⁸ Trade secrets are typically understood in the context of a tort (misappropriation), rather than a standalone right registered with a government agency.⁹ Protection lasts as long as the information remains secret.

In adopting the New Jersey Trade Secrets Act, New Jersey changed the requirements for a trade secret by eliminating the common law element of continuous use, which requires the owner to use the trade secret continuously and not merely for single or ephemeral events.

Most states have codified the requirements for trade secret protection, but a handful of states, including New York and until recently, New Jersey, have relied on common law to protect trade secrets. On Jan. 9, 2012, New Jersey adopted the New Jersey Trade Secrets Act (S-2456/A921). In so doing, New Jersey changed the requirements for a trade secret by eliminating the common law element of continuous use, which requires the owner to use the trade secret continuously and not merely for single or ephemeral events.¹⁰

Additionally, New Jersey included further restrictions on trade secret enforcement. For example, under the New Jersey law, a party bringing a misappropriation claim without any reasonable basis in fact (i.e., no evidence of a trade secret) may be liable for attorney fees.¹¹ An IP audit can be used to ensure that the new requirements for trade secrets are properly met and identify potentially new trade secrets that may not have satisfied common law requirements (e.g., trade secrets lacking continuous use).

Other IP Practice. Apart from auditing IP that might be affected by changes in the law, companies should consider conducting a thor-

ough audit of the rest of their IP portfolios. With respect to trademarks, for example, an IP audit may include steps to evaluate the strength of existing trademarks and, if necessary, to establish guidance on their proper usage in the mark to ensure that they do not become descriptive or generic. With respect to copyrights, the IP audit may include steps to determine whether federal copyright registration has been procured for valuable and potentially infringed works of authorship, as such registration is generally required to bring suit.

The IP audit may also include steps to examine whether proper notices and IP markings have been affixed to all patented, trademarked, or copyrighted materials. This may be important in view of new provisions in the AIA which provide for the ability to "virtually mark" products with an address for a website listing patent numbers.¹² Missing or improper IP notices can have a significant impact on the subsequent enforcement of IP rights, and can negatively affect the amount of damages at stake in an infringement suit.¹³

Conclusion

In light of the enactment of the AIA and new trade secret laws, there is no better time to conduct a thorough IP audit. An IP audit can help a company identify its IP, develop policies and procedures to preserve existing and future IP, and, with the coming change to a "first to file" system, determine whether existing IP policies should be changed. Through such audits, a company can potentially increase its value and make better business decisions. With IP, as with any important aspect of a company's business, an ounce of prevention is worth a pound of cure.

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1. Evelyn M. Rusli and Claire Cain Miller, "Google to Buy Motorola Mobility for \$12.5 Billion," *The New York Times Deal Book* (Aug. 15, 2011).

2. "The last Kodak moment?" *The Economist* (Jan. 14, 2012).

3. See "America Invents Act: Effective Dates" (Oct. 5, 2011) (available at http://www.uspto.gov/aia_implementation/aia-effective-dates.pdf).

4. 35 U.S.C. §111(b).

5. See H.R. 1249 §3(b) (amending 35 U.S.C. §102).

6. See H.R. 1249 §3(b) (amending 35 U.S.C. §135).

7. H.R. 1249 §5 (amending 35 U.S.C. §273).

8. See, e.g., 18 U.S.C. §§1030, 1832.

9. Ha Kung Wong, et al., "Trade Secret Law Reform: Could an Amended Economic Espionage Act Overcome Inconsistencies in the Current State Law System?" *Bloomberg Law Reports: Intellectual Property* (January 2012).

10. Restatement of Torts §757, cmt. b (1939).

11. New Jersey Trade Secrets Act (S-2456/A921) §6.

12. See H.R. 1249 §16 (amending 35 U.S.C. §287).

13. See 35 U.S.C. §287.