

## **Basic Intellectual Property (IP) Principles**

“Intellectual property has been transformed from a sleepy area of law and business to one of the driving engines of a high-technology economy,”  
New York Times, April 5, 1999.

### **A. Reasons Why a State Agency or Department Should Adopt an IP Program**

1. Based on two BSA audits that found the State of California is not doing enough to manage potentially valuable IP assets, the Legislature enacted Government Code section 13988. This statute requires agencies and departments to take steps to manage their IP resources pursuant to a program being developed by the Department of General Services (DGS). Not only is it now the law, but protection of IP assets can produce tangible benefits for a governmental entity.
2. By registering service marks, trademarks, and copyrights, agencies and departments will be better positioned to take legal action to prevent their agency or department from being associated with undesirable, unwanted, and unacceptable messages (example of Total Wine advertisement with a personalized California license plate);
3. Registration provides constructive notice for evidentiary purposes, and enhances the available damages in a legal action while authorizing the recovery of attorney fees in appropriate cases;
4. Taking action against an infringer through cease-and-desist efforts will prevent the appearance of improper endorsement of a private entity by the state, and will also help protect the image of respective the agency or department. Business & Professions Code section 17533.6(a) prevents companies from implying approval or endorsement by the state in any Internet advertising. This can be a very valuable tool in a legal compliance program. DMV had a big problem with companies using "DMV" in their URLs, which made the public believe that they were visiting an official governmental site (the subject of an LA Times article and numerous consumer complaints);
5. An effective program helps prevent the illegal use of the State Seal (see Govt. Code sec. 402) and/or agency logos, trademarks, or service marks;
6. An IP program that is actively enforced can prevent the sale of copyrighted departmental materials that must be made freely available to the public, perhaps via a statutory mandate (example of California Driver Handbook being sold in the Apple App Store and the Google Store and the effective use of a DCMA Takedown letter to halt this practice);
7. An effective program can facilitate the in-house development of social media, which is an increasingly important part of state government outreach, by preventing others from

becoming the first to enter this area (again, think copyright protection and DCMA Takedown notices);

8. An IP program enables informed agency or departmental decisions about what IP has the potential for development for the benefit of the state or what IP can be donated for the benefit of the general public (this public element is an important legislative focus of the Govt. Code section 13988 scheme);
9. Down this list, is the possibility of maximizing the value of certain categories of agency or departmental IP through partnerships, joint ventures, licensing, assignment, etc.; these categories include original software code (this is unlikely to be a significant issue for most agencies or departments but it may be a potentially lucrative area for a select few);
10. By registering service marks and logos with the California Secretary of State, an agency or department can quickly and inexpensively establish an exclusive "brand image" within the state;
11. Important marks can be trademarked with the Patent & Trademark Office (PTO) for strong enforcement rights (departmental logos that appear on controlled forms, for example) so that others can be prevented from doing things like selling official looking forms for a profit; and
12. A good IP program can also serve a defensive purpose in that employees can be trained not to use copyrighted and similar materials without permission, especially Internet content, which can expose the state to significant potential legal liability (example of use of photo in training materials and demand for \$750 per use). Policies, Procedures and Roles are an important part of any preventative strategy.

## **B. Basic Elements of An IP Program**

1. A general observation has been made in the past that many government institutions have been "amateur" with respect to their IP activities. One of the reasons for this is that most governments do not have intellectual property programs in place to manage and protect IP assets. Particularly sensitive issues include ownership of IP, disclosure of IP developments, and the distribution of income in the event of an invention being commercialized.
2. The sponsor provides funds for the development of intellectual property and, for this contribution, may reasonably expect ownership of the intellectual property generated and/or unrestricted utilization of the knowledge acquired.
3. The licensee is the governmental entity, industry partner, or institution that purchases the license for specific intellectual property. It pays for the technology and therefore may expect absolute rights in it.

4. The government often provides funds for development of IP rights, including infrastructure and other services. Therefore, any invention, innovation and/or research findings arising from a government program should be managed in a way to maximize the potential of useful inventions and avoid underutilization by permitting unfair monopoly of ownership.
5. An IP program should harmonize the conflicting interests of all the stakeholders in the generation and commercialization of a patent, trademark, copyrighted work, or confidential trade secret. The basic goals of a governmental IP program should be to:
  - a. Provide for the development and utilization of intellectual property generated at the state government level;
  - b. Promote the progress of science and technology; and
  - c. Ensure that discoveries, inventions and creations generated by civil service staff and retained consultants are utilized in ways most likely to benefit the state, as well as the general public.
6. The primary goals of an effective IP program should be to achieve the following:
  - a. Creation of an environment that encourages and expedites the dissemination of discoveries and new knowledge generated by state agencies or departments for the greatest public good;
  - b. Ensuring that the commercial results, financial or otherwise, are distributed in a fair and equitable manner;
  - c. Ensuring that both intellectual property and other products of research are made available to the public through an efficient and timely process of technology transfer;
  - d. Promotion, preservation, encouragement of and assistance to scientific investigation and research;
  - e. Establishment of standards for determining the rights and obligations of a state agency or department with respect to IP; and
  - f. Ensuring compliance with applicable laws and regulations, while enabling a state governmental entity to protect its intellectual property assets in a legally appropriate manner.

### **C. The Types of Intellectual Property**

1. Article 1, section 8, clause 8, of the U.S. Constitution (commonly known as the Copyright and Patent Clause) empowers Congress: “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.”
2. “‘Intellectual Property’ means intangible assets that are subject to statutory protection under applicable patent, copyright, and trademark law. Intellectual property includes, but is not limited to, inventions, industrial designs, identifying marks, and symbols, electronic publications, trade secrets, and literary, musical, artistic, photographic, and film works.” [California Govt. Code sec. 13988.1(d).]

3. The following are the types of intellectual property that should be considered by a California governmental entity in its development of an IP program:
  - a. Patents;
  - b. Industrial designs, packaging designs, proprietary and/or controlled forms;
  - c. Copyrighted works;
  - d. Geographical maps, surveys, etc.;
  - e. Trade and service marks; and
  - f. Trade secrets.

#### **D. Copyrights (17 U.S.C. Sections 101 et seq.)**

1. Copyright is entirely a product of federal law and protects original expression in such things as:
  - a. Books, periodicals, magazines, newspapers, blogs, etc.
  - b. Music, musical recordings, recorded musical performances, etc.
  - c. Films, motion pictures, movies, recorded musicals, recorded adaptations, etc.
  - d. Photographs, still pictures, tintypes, etc.
  - e. Art, artistic drawings, sculptures, etc.
  - f. Computer software, computer coding, etc.
  - g. Architectural designs and drawings, etc.
  - h. Clothing designs, clothing cut-outs, etc.
2. The author is the owner of the copyright and is entitled to enforce his or her rights through litigation. REGISTRATION OF A COPYRIGHT TYPICALLY IS A PREREQUISITE TO FILING A LAWSUIT.
3. In order to be subject to copyright protection under federal law, an article must originate with the author (very low bar) and must be *fixed* in a tangible medium (i.e., “pen must be put to paper”).
4. A copyright cannot arise from a live act unless it recorded in some tangible medium like a sound recording.
5. Ideas are not subject to protection. Thus, someone can overhear you discussing an original idea and “put pen to paper first”. Even though the idea did not originate with the eavesdropper, the one to first establish something in a fixed medium owns the copyright to the work.
6. Mere facts are NOT subject to copyright. The seminal case in this regard is the U.S. Supreme Court decision in *Feist v. Rural Telephone Services Co.* This case involved a white pages compilation; the Supreme Court held that the information in the white pages were facts that could not be copyrighted.
7. One interesting question that has arisen is whether a Leadership Manual is copyrightable. Courts have held that the *specific information* set forth in such a manual is copyrightable while the concept of a manual is not.

8. A copyright exists at the moment of creation in a fixed, tangible medium. Registration with the federal government is not necessary to affix copyright privileges to an article of original expression.
9. However, registration generates significant and important advantages for a copyright owner:
  - a. Registration, with a few minor exceptions, is a prerequisite for bringing a copyright infringement action;
  - b. Registration creates evidentiary and constructive notice if litigation proves necessary to enforce a copyright;
  - c. Registration establishes clear standing to sue without the risk of excessive litigation on this point;
  - d. Registration entitles the copyright holder to receive significant statutory damages (\$150,000 per violation v. \$750 per violation for unregistered copyrights); and
  - e. Registration entitles the copyright holder to receive an award of attorney fees.
  - f. A copyright is registered with the U.S. Copyright Office, which is a Division of the Library of Congress.
10. A copyright gives the owner the following exclusive rights:
  - a. To reproduce the work;
  - b. To develop derivative works;
  - c. To make copies;
  - d. To publicly display the work;
  - e. To publicly perform the work; and
  - f. To digitally transmit the work.
11. The length of a copyright varies depending on a number of factors:
  - a. If the work was created before 1923, it is now in the public domain and may be freely used;
  - b. If created between 1922 and 1978, the copyright lasts 95 years from the date of publication;
  - c. If the work was created after 1977, several factors come into play:
    - (i) In the case of a work-for-hire, an anonymous work, or a work published under a pseudonym, the copyrights lasts between 95 and 120 years, depending on the date of publication (this is the period most relevant for the state);
    - (ii) If the work was created but not published before 1978, the copyright will last the life of the author, plus 70 years (basic modern rule).
  - d. Even if the author died over 70 years ago, a copyright will last until 12-31-2002. If the work is published before this deadline, the copyright will last until 12-31-2047.
12. Addressing copyright infringement through a comprehensive monitoring and enforcement program:
  - a. *Keep everything* in order to document your rights in the copyrighted work and to prove infringement;

- b. Requires proof of *actual* copying; therefore, must prove that infringer actually saw the copyrighted work (this can be very difficult to establish);
  - c. One type of actual copying occurs where something is so well-known, that the infringer must have seen or heard it (George Harrison recording of “My Sweet Lord” is interesting example where “subconscious” copying supported a claim for infringement);
  - d. Substantial similarity is an important doctrine in copyright infringement cases. Must quantify and qualify the similarities. There is no hard and fast rule for making this determination.
13. Title 17 U.S.C. section 107 codifies the concept of “fair use”, which is an important defense to a claim of copyright (or trademark) infringement. The courts consider four factors under this statute in determining whether an alleged infringing work is a “fair use” of a copyrighted work:
- a. What is the purpose and character of the alleged infringing work (i.e., commercial or otherwise)
  - b. What is the nature of the copyrighted work;
  - c. What amount of the original was taken and are there substantial similarities between the two works; and
  - d. What impact will the infringing work have on the market for the copyrighted work. (See *The Authors Guild, Inc. v. Google, Inc.*; this case involved the Google Books database, which contains over 30 million digitally scanned books.)
  - e. Courts narrowly define this doctrine of substantial similarity so make sure to do substantial upfront analysis before initiating litigation.
14. The following are examples of “fair use” under Section 107:
- a. Criticism or comment;
  - b. News reporting;
  - c. Research and scholarship;
  - d. Non-profit educational uses; and
  - e. Parody (i.e., ridicule another). This is sometimes a problematic area for an alleged infringer because it is narrowly applied by the courts (use of Don Henley song for political purposes was outside the parody exception and was not a “fair use”).
15. Employees must be trained to be very careful in taking things from the Internet without permission and proper attribution because much of this content is subject to copyright protection, even if unregistered (potential \$750 fine per violation). Employee manuals and appropriate policies and procedures can help limit this very real risk.
16. Consultants who build web sites for a state agency or department must be required to assume all liability for taking material from the Internet and must be expressly required to hold the state harmless from any claims of liability arising from alleged infringement caused by the consultant. This liability must be strict, and these consultants must be required to assume all of the state’s defense and litigation costs, as well as any resulting damages levied against the state.

17. Vendors also need to warrant and guarantee that all content that it uses is fully authorized and licensed (hold harmless and indemnification also required here).

#### **D. The Work-for-Hire Doctrine**

1. The work-for-hire doctrine is extremely important in the copyright area because this doctrine helps establish who owns a copyright to an original work. Oftentimes, coding is done in a different part of the world by individuals who are not direct employees of the state agency or department, which can create ownership issues.
2. State agencies and departments, therefore, must ensure that such outside consultants and contractors are subject to this doctrine so that the state sponsor is the holder of the copyright. This can easily be accomplished *at the outset* with an assignment of rights. Achieving this goal after-the-fact is extremely problematic for an agency or department.
3. In order to create the work-for-hire presumption with respect to employees, a state agency basically should establish that the person who created the original work is under its full control. Courts make this determination by applying the traditional employment test to ascertain if a person is an employee, which includes an examination of such traditional factors as:
  - a. Who controls the work;
  - b. Who provides the work tools;
  - c. Who dictates the skills necessary to produce the work;
  - d. Who directs the scope and focus of the work;
  - e. Is a W2 or 1099 provided to the creator; and
  - f. Similar factors well-established by the courts over the years.

#### **E. Trademarks and Service Marks (15 U.S.C. Sections 1051 et seq.)**

1. A trademark is a word, phrase, symbol, sound (i.e., a jingle or slogan), and/or design that identifies and distinguishes the source of goods of one party from those of another. Think of a brand name like Coca Cola or Pepsi.
2. A service mark is a word, phrase, symbol, and/or design that identifies and distinguishes the source of a service rather than goods. The term “trademark” is often used to refer to both trademarks and service marks. Service marks and/or trademarks can be registered with the California Secretary of State.
3. Trademarks are not preempted by federal law (copyrights and patents are), which results in a confusing mix of sources that must be checked to determine the feasibility of a planned mark. The federal law governing trademarks is known as the Lanham Act.
4. Trademark protection is premised on the law of unfair competition. A trademark serves the following purposes:
  - a. It promotes quality assurance by permitting the public to identify the true source of goods;

- b. A trademark can help preserve the goodwill of a company, which often is its most valuable intangible asset; and
  - c. Trademark protections help prevent the dilution of a company's assets, profits, and overall worth.
5. In selecting a trademark, a registrant must make sure to select the correct one by not infringing on an existing mark. The federal Patent and Trademark Office (PTO) has a database where trademarks may be searched.
6. A trademark does not have to be registered to be enforceable. A trademark can be acquired from regular use so long as the mark is clearly identified with the trademark owner's goods.
7. Nevertheless, much like a copyright, federal registration of a trademark has several important advantages:
  - a. Registration provides constructive notice to the public of the registrant's claim of ownership of the mark for evidentiary purposes;
  - b. Registration provides a legal presumption of ownership *nationwide* (i.e., a national footprint); and
  - c. Registration establishes the exclusive right to use the mark on or in connection with the goods set forth in the registration.
8. Trademarks come in four basic types:
  - a. Generic -- no protection because these are not distinctive;
  - b. Descriptive – protection accrues only after use to establish a secondary meaning for the mark;
  - c. Suggestive – the connection to the goods is not immediately apparent and these marks are protected upon use without the need to acquire a secondary meaning;
  - d. Arbitrary – there is no ready connection between the mark and the goods (effective immediately upon use and these are the strongest marks).
9. Some marks can become generic over time and lose trademark protection (examples of aspirin and cellophane). When this occurs, it is no longer possible to enforce the mark.
10. Slogans such as “Just Do It” can be registered as trademarks.
11. Trademarks do not have a specific duration as they can last forever if used (use it or lose it concept).
12. Likelihood of confusion is the basic test for determining if a trademark has been infringed. In making this determination, courts look at:
  - a. Strength of the mark (most important);
  - b. Similarity between the marks;
  - c. Defendant's good faith;
  - d. Likelihood of consumer confusion; and
  - e. Sophistication of the market.

13. “Cybersquatting” (also known as “domain squatting”) according to the federal Anticybersquatting Consumer Protection Act is registering, trafficking in, or using a domain name with bad faith intent to profit from the goodwill of a mark belonging to someone else. The cybersquatter then offers to sell the domain name to the true owner of the mark at an inflated price.
14. If you have a mark and someone has used the mark in a domain name for “cybersquatting” purposes, arbitration through the Internet Corporation for Assigned Names and Numbers (ICANN) can be the quickest and least costly method of retrieving the name. ICANN is the private sector non-profit formed in 1998 to maintain and administer several databases containing the names and numbers necessary for proper functioning of the Internet.
15. “Fair Use” exists in trademark law, such as in the case of comparative advertising, which is very common.
16. There are services that offer assistance in protecting trademarks by using software-based tools and resources to police the Internet and other places where marks are likely to be abused.

#### **E. Patents (Title 35 U.S.C. Sections 100 et seq.)**

1. Article 1, section 8, clause 8, of the U.S. Constitution is the basis for patent law, which is exclusively governed by federal law. The constitutional grant of authority has been codified in Title 35 of the United States Code.
2. A patent is a set of rights granted by the federal government to an inventor or assignee for a limited duration in return for a detailed public disclosure of the invention in the form of a patent application filed with the PTO. An invention is a solution to a specific technological problem and is a product or process. A new way of doing something may also be patentable.
3. The duration of a patent in the U.S. is 20 years from the date of the earliest filings (for patents filed after June 8, 1995). A patent gives an inventor the exclusive right to manufacture the invention, which is an effective monopoly that usually results in market leader status. As a result, patents can be the most valuable form of IP.
4. Patents are designed to fuel progress because once patented, an invention can be improved, leading to advances in science, medicine, technology, and other areas critical to a society.
5. On March 16, 2013, pursuant to the Leahy-Smith America Invents Act (AIA), the United States patent law officially transferred from the prior “first to invent” system to the new “first to file system”. Under the prior system, the first to invent was entitled to priority over subsequent inventors so long as they filed a patent application within 12 months of

any public use, commercialization, or publication of the invention. Under the new system, patent rights are granted to the first to file a patent application regardless of whether that person was the first to invent.

6. This new “first to file” system opens a much larger body of prior art applicable to a claimed invention, and provides new options to challenge a patent in the U.S. Patent Office. By adopting this system, Congress better harmonized U.S. patent law with the laws of other countries.
7. The basic test for determining if something is patentable is whether it is new, useful, and non-obvious, which can include methods of doing something and design or utility patents (example of Apple/Samsung iPhone litigation, which cost the parties over a billion dollars in legal expenses, and led to a \$930 million award against Samsung for patent infringement).
8. Software patents present a challenging area of patent law that is generating increasing litigation. The recent U.S. Supreme Court case of *Alice Corp. v. CLS Bank* may sound the death-knell for software patents because the Court in this case reduced the four issued patents to variations of, “An instruction to apply the abstract idea of intermediate settlement using some unspecified, generic computer.”
9. This language has caused many in the patent bar to believe that all that is necessary to invalidate a software patent or to reject a software-based patent application is to show that the claims are related to an “abstract idea” that is devoid of “an ‘inventive concept’ sufficient to ‘transform’ the claimed abstract idea into a patent-eligible application.”
10. Design or utility patents also are on the cutting edge of patent litigation, which should have a profound impact on how technology companies proceed in the future. Design patents have proven incredibly beneficial (Oakley sunglasses are an example). Amazon successfully used its “one click” shopping patent against Barnes and Noble during the important holiday season several years ago to freeze its competitor out of this key selling period.
11. In the landmark case of *Association for Molecular Pathology v. Myriad Genetics*, the U.S. Supreme Court addressed the patentability of human genes, an issue of considerable importance in biotechnology. The case centered on a family of patents that included claims to certain isolated DNA and cDNA (complimentary DNA) used in cancer diagnosis. In the majority opinion decision of Justice Thomas, the court held that a naturally occurring DNA sequence “is a product of nature and not patent eligible merely because it has been isolated”. cDNA *is* patent eligible because it is not naturally occurring.
11. To obtain a patent, an inventor must file a patent application with the PTO, which is a very complex, time-consuming, and costly proposition. The patent application must be filed before the invention is publicly displayed in order to secure exclusive rights (think trade shows and “angel” investor group presentations).

12. Of all types of IP, enforcement of patent rights is the only way to maintain their value. Damages and injunctive relief preventing the manufacturing of the infringing product are available types of relief in patent litigation.
13. In patent litigation, courts look at what the patented claims mean because they exist literally in this narrow world. The doctrine of equivalents may be applied if the infringer is not doing everything precisely the same way as the patent holder; however, this is not a favored doctrine.

## **F. Protection of Trade Secrets in California**

1. Trade secrets are an incredibly valuable aspect of an organization's IP and should be protected through appropriate contractual language.
2. Employees and/or consultants taking trade secrets after they leave a position or a project is a common problem in the technology world that requires constant monitoring and vigorous enforcement.
3. For many years, California trade secrets law was governed by judicial decisions; this changed in 1984, when California codified the Uniform Trade Secrets Act (UTSA) almost in its entirety. (See Civil Code secs. 3426 et. seq.)
4. In California, the UTSA does not supersede any other statutes relating to trade secrets, which remain in force, including Business & Professions Code section 16606 (dealing with customer lists), Code of Civil Procedure section 2019(d) (governing discovery related to trade secret claims), and Labor Code section 6233 (protection of trade secrets in the employment context).
5. California's adoption of the UTSA also does not affect other contractual, civil, or criminal remedies that may be available, even if it is not based exactly on a misappropriation of a trade secret. For example, the criminal penalties for trade secret theft in Penal Code section 499c still apply.
6. There are numerous types of trade secrets. The UTSA definition was adopted in Civil Code section 3426.1(d): "information, including a formula, pattern, compilation, program device, method, technique, or process" that meets two fundamental qualifications:
  - a. The information must derive "independent economic value, actual or potential, from not being generally known to the public or to the persons who can obtain economic value from its disclosure or use"; and
  - b. The trade secret owner must take reasonable steps to maintain the secrecy of the information.
  - c. This inquiry is fact-based and requires an analysis of the sensitivity of the information, who needs access to it, and whether a company's own internal procedures for protecting information are actually followed.

7. Specific examples of trade secrets include the formula for Coca Cola; processes, such as how McDonald's prepares its French fries; methods or techniques, such as Wal-Mart's system for supply chain management; products, such as computer software; or designs and patterns, such as a blueprint. Two common forms of trade secrets are customer lists and proprietary business plans.
8. California law provides several remedies for misappropriation of trade secrets:
  - a. Damages: compensation for actual harm suffered by the trade secret owner;
  - b. Royalties: if neither damages nor unjust enrichment can be proven, a court may order the payment of royalties for the time period the use could have been prohibited;
  - c. Double damages: if it can be established that the violation was willful and malicious; and
  - d. Injunctive relief: this relief can be obtained just with evidence of threatened misappropriation rather than actual use.
9. Civil Code section 3426.4 allows a court to award attorney fees to the prevailing trade secrets owner if the misappropriation was willful and malicious. A court may award attorney fees to a defendant if a misappropriation claim is brought in bad faith. As a result, careful legal analysis is required before making a decision to initiate trade secrets litigation.
10. State entities can protect their trade secrets through a well-thought out protection program:
  - a. Contracts: confidentiality agreements with personnel and consultants and IP assignment contracts;
  - b. Information systems: the security of electronic data must be protected through reasonable measures (in the case of the state, these measures largely are dictated by statute, regulation, DGS memos, the State Administrative Manual, etc.). Secured networks, firewalls, multi-character password, and methods to track employee activity should be deployed;
  - c. Human resources: agencies and departments must remind employees of their obligations to protect confidential information, including accessing information only "on a need to know basis";
  - d. Legal response plan: agencies and departments should work with their legal counsel to develop a response plan in the event that confidential information is misappropriated or misused.