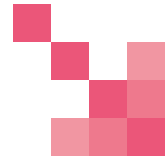


United States



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www.practicallaw.com/9-381-0818

OVERVIEW OF MAIN IPRS

1. Please give a brief overview of the main IPRs in your jurisdiction, including how they are protected (whether through registration or otherwise). Consider:

- Patents.
- Trade marks.
- Copyright.
- Design rights.
- Confidential information.
- Any other main IPRs that apply in your jurisdiction.

Patents

To obtain patent protection, the inventor must file a patent application with the US Patent and Trademark Office (USPTO) (www.uspto.gov). There is no common law or other form of patent protection. The USPTO provides registration for three distinct types of patents:

- Utility.
- Design.
- Plant.

A utility patent protects any novel, useful, and non-obvious process, machine, article of manufacture, or composition of matter. For patent applications that were pending on 8 June 1995, and for patents that were still in force on 8 June 1995, the patent term is either 17 years from the issue date or 20 years from the earliest claimed filing date, the longer term applying, and subject to any terminal disclaimers or patent term adjustments. Adjustments of term are available for certain patent office delays and for certain regulatory delays.

For applications filed on or after 8 June 1995, the patent term is 20 years from the earliest claimed filing date, subject to any terminal disclaimers or patent term adjustments.

Design patents protect new, original, and ornamental designs. The term of protection of a design patent is 14 years from the date of issue. Design patents are known as registered designs in some other jurisdictions.

Plant patents can be issued for distinct and new varieties of plants which have been asexually reproduced. The term of a plant patent is 20 years from the date of issue.

The USPTO assesses various fees on application for any of the three types of patent. Applicants which can demonstrate status as a “small entity” are permitted to pay reduced fees, which are typically half of the standard fee. Basic application fees are as follows:

- Utility: US\$310 (about EUR209) or US\$155 (about EUR105) for small entities.
- Design: US\$210 (about EUR141), or US\$105 (about EUR71) for small entities.
- Plant: US\$210, or US\$105 for small entities.

In addition to the basic application fees, applicants need to pay search and examination fees before a patent will issue. The search fees are as follows:

- Utility: US\$510 (about EUR343), or US\$255 (EUR172) for small entities.
- Design: US\$100 (about EUR67), or US\$50 (about EUR34) for small entities.
- Plant: US\$310 (about EUR209), or US\$155 (about EUR104) for small entities.

The examination fees are:

- Utility: US\$210, or US\$105 for small entities.
- Design: US\$130 (about EUR88), or US\$65 (about EUR44) for small entities.
- Plant: US\$160 (about EUR108), or US\$80 (about EUR54) for small entities.

Utility patents also require the payment of periodic maintenance fees.

Trade marks

In the US, trade marks can receive legal protection whether they are registered or unregistered. Trade marks can be registered under both state and federal law. Unregistered trade marks are protected under “common law”. If possible, trade marks should be federally registered, as registered trade marks benefit from a number of presumptions regarding the ownership and validity of the mark.

A federally registered US trade mark must be:

- Distinctive.
- Non-functional.
- Used in commerce.

Trade marks can include trade marks or service marks, for example, words, logos, symbols, and designs, as well as trade dress, such as a product packaging. The USPTO also handles registration of trade marks. The basic registration fee for one class of goods or services is US\$325 (about EUR219) if filed electronically, or US\$375 (about EUR252) if filed by paper, and there is no reduction in fees for small entities. Protection lasts ten years and is renewable indefinitely in ten-year increments. To maintain a federal trade mark registration, the registrant is also required to file a Statement of Use or Excusable Non-Use between the first fifth and sixth years of registration.

Registered trade mark owners should always use the traditional “®” designation. Registrants who fail to give notice of registration cannot collect profits or damages for infringement unless the defendant had actual notice of registration.

The main part of an internet domain name can be registered as a trade mark with the USPTO under certain circumstances. Domain names can be acquired through an ICANN-designated registrar (www.internic.org/regist.html). Fees and term will vary depending on the registrar, though domain names can be renewed indefinitely.

Copyright

Copyright automatically vests in protectable works on creation. An author is not required to register a copyright to obtain legal protection for the work; however, copyrighted works must be registered to bring an infringement action in court and to obtain certain other benefits, such as evidentiary advantages in infringement litigation and the availability of statutory damages.

A work is protected if it is:

- Original.
- Fixed in a tangible medium of expression for more than some transitory period of time.

Protectable works include:

- Literary works.
- Dramatic works.
- Musical works.
- Pantomimes and choreographic works.
- Pictorial, graphic and sculptural works.
- Motion pictures and audiovisual works.
- Sound recordings.
- Architectural works.

For works created by an individual on or after 1 January 1978, the term of a copyright, whether registered or unregistered, is the duration of the author's life, plus an additional 70 years. For works created anonymously, deemed a “work made for hire” by the employee of an entity and certain specially commissioned works, the term is the longer of 120 years from the date of creation or 95 years after first publication.

For works created before 1 January 1978, the term varies between 95 years and 120 years from publication of the work, depending on whether the work was registered or renewed, whether it was published, and when it was created. For unpublished works created before 1 January 1978, the term is life plus 70 years if not published before 2003, or until 2048 if published between 1 January 1978 and 2003.

For registered or unregistered works first published on and after 1 March 1989, use of the traditional copyright notice, for example “© 2008 Jane Doe,” is optional. Use of the copyright notice is often beneficial and will provide certain additional evidentiary advantages in litigation.

Works can be registered by submitting a paper or online form to the US Copyright Office (www.copyright.gov), along with a sufficient number of deposit copies of the work. A basic fee of US\$45 (about EUR30) is due at the time of filing.

Trade secrets

In the US, protected confidential information is generally referred to as trade secrets. Trade secrets are mostly protected by state law. Every state recognises some form of trade secrets, and most have adopted all or some of the Uniform Trade Secrets Act. Federal statutes protect trade secrets in certain limited circumstances.

Generally speaking, to be protected as a trade secret, information must:

- Not be generally known or ascertainable, that is, secret.
- Derive economic value from the fact that it is secret.
- Be the subject of efforts that are reasonable to preserve its secrecy.

There is no registration procedure for trade secrets. Similarly, there is no legal notice that must be attached to trade secrets. However, it is advisable to mark all trade secrets as “secret” or “confidential” to show an effort to preserve secrecy. Protection lasts until the information is publicly available, or until it no longer derives economic value from its secrecy.

For further information about the main IPRs, see *Main IPRs: United States*.

MAINTAINING IPRS

2. What facilities are available to conduct IP searches and obtain IP information on registered IP rights, for example to search:

- Before an application to register an IPR.
- After registration to maintain IPRs and monitor possible infringement?

Patents

The USPTO maintains a searchable online database of the full text of patents issued since 1976, and full-page images of patents issued since 1790 (www.uspto.gov/patft/index.html). The USPTO also maintains a searchable online database of patent applications published since 15 March 2001 (also available at www.uspto.gov/patft/index.html). However, under US patent law, patent applications can only be published 18 months after their priority date, so any patent applications with priority dates within the last 18 months will not be accessible.

The USPTO also maintains a searchable online database of patent assignment records (<http://assignments.uspto.gov/assignments/q?db=pat>). This database reflects all assignments, pre- and post-issuance, which have been recorded with the USPTO. This database will also reflect any security interests which have been recorded with the USPTO. However, because the US patents laws do not require recordation of patent assignments with the USPTO, this database may not always accurately reflect the assignment of a particular patent.

In addition to the searchable databases, the USPTO publishes the *Official Gazette* each week, available in paper form and online at the USPTO website. The *Official Gazette* lists a variety of notices, including:

- Which patents have issued in the last week.
- Patents which have expired due to failure to pay maintenance fees.
- Patents reinstated due to the acceptance of late maintenance fees.
- Other useful information.

Due to the highly technical nature of patents, it is advisable to hire a specialist firm to carry out the necessary searches before an application is made. Businesses can also subscribe to watch services, which alert them to potentially conflicting patent applications as they arise.

Trade marks

The USPTO provides a searchable online database of trade mark registrations (<http://tess2.uspto.gov/bin/gate.exe?f=tess&state=2fbjdr.1.1>). Registrations can be searched by, for example, word, serial number, registration number, design element, or owner name and address.

The USPTO also publishes the *Official Gazette* (see above, *Patents*). In addition to patent-related notices, the *Official Gazette* also publishes trade mark notices, including:

- Which marks have been published for opposition.
- Which marks have been registered or renewed.
- Which registrations have expired or been cancelled.

Businesses can also subscribe to watch services, which will alert them to potentially conflicting trade mark applications and registrations as they arise.

With respect to domain names, it is possible to conduct a WHOIS search, accessible online via a number of websites such as the InterNIC website (www.internic.net/), to find out information about domain names. In addition, simply typing identical and similar names into a web browser may reveal any potentially infringing domain names, or will reveal if a desired domain name has already been taken.

Copyright

The Copyright Office also provides a searchable online database of copyright registrations since 1978 (<http://cocatalog.loc.gov/cgi-bin/Pwebrecon.cgi?DB=local&PAGE=First>). Registrations can be searched by several fields, including title, author, registration number, and keywords. Registrations issued before 1978 must be searched for on-site at the Copyright Office.

Trade secrets

As trade secrets depend on secrecy for their intrinsic value, it is not possible to obtain publicly available information on trade secrets.

3. What steps must a business take to maintain the registration and status of its main IPRs (for example, registration renewal, using an IPR in a certain time period, and avoiding misuse of the IPR)?

Patents

Maintenance fees are due in three instalments following issuance of a utility patent:

- At 3.5 years: US\$930 (about EUR626) (US\$465 (about EUR313) for small entities).
- At 7.5 years: US\$2,360 (about EUR 1,589) (US\$1,180 (about EUR794) for small entities).
- At 11.5 years: US\$3,910 (about EUR2,632) (US\$1,955 (about EUR1,316) for small entities).

A patentee has no obligation to use or commercialise his invention. It is not uncommon for individuals to obtain patents on technologies they never intend to develop.

Trade marks

To maintain a trade mark registration, an affidavit of continued use, or excusable non-use, must be filed between the fifth and sixth anniversaries of the registration date. The filing fee associated with this affidavit is US\$100 (about EUR67) for each class of goods or services. In addition, a statement of incontestability can be filed at such time, if the registrant has used the mark continuously in commerce for at least five years following registration. The filing fee associated with this statement is US\$200 (about EUR134) for each class of goods or services. "Incontestable" status provides certain evidentiary advantages in litigation.

Trade marks must be renewed on the tenth anniversary of the registration date, and every ten years after this. Fees for renewal are US\$400 (about EUR269) for each class of goods or services.

A trade mark owner must continue to show use, control over a third party's use, or excusable non-use, to maintain trade mark rights. A registered mark is deemed to be abandoned when:

- Use has been discontinued with intent not to resume use; or
- The owner's course of conduct causes the mark to lose trade mark meaning.

Non-use of a mark for three years is a *prima facie* case of abandonment.

Copyright

Works created on or after 1 January 1978 are not required to be renewed, or subject to any renewal fees following registration. Works first published between 1964 and 1977 are automatically renewed, but a renewal certificate will not be issued without a formal application for renewal. It is advisable to request renewal, as certain benefits accrue to formally renewed copyrights. Works published between 1923 and 1963 are only still protected if a renewal was previously filed.

Trade secrets

Trade secrets maintain their status so long as they are kept secret and retain their value. Proper steps should be taken to ensure the secrecy of this IP, so long as it still retains value for the owner.

4. What steps can a business take to avoid committing an infringement of a main IPR and to monitor whether a competitor is infringing its IPRs?

A familiarity with competitors' products enables businesses to make educated decisions as to whether its IPRs are potentially infringed. Businesses should conduct regular searches of IPR registrars or review the registrars' weekly publications. Subscription to various trade papers or industry-specific newsletters may also reveal information about potential infringers.

To protect against committing infringement, employees should be trained periodically with respect to the IPRs relevant to their

industry and work. Businesses should also implement guidelines aimed at avoiding IPR infringement, and ensure that employees know and comply with these guidelines.

EXPLOITING IPRS

5. What are the main steps in an IP audit in your jurisdiction to determine the content of an IP portfolio?

Each company should maintain a list of all registered and unregistered IPRs in which it claims an interest. All IPR registrations can be confirmed through the appropriate registrar, and formal registration documents should be collected and archived. If the company is the recipient or transferor of a registered IPR, the assignment should be recorded with the appropriate registrar within the requisite time period, and the recordation documents should also be collected and archived.

Because the US patent system is "first-to-invent", all laboratory notebooks, or comparable materials, should also be witnessed and archived. These documents can be necessary for proof of conception, should the invention be subject to an interference proceeding.

For companies with large IP portfolios, it is advisable to instruct specialist IP attorneys to conduct an audit.

ASSIGNMENT

6. How can main IPRs be assigned (for example, in whole or part, with or without goodwill (in the case of trade marks), in relation to future rights, and with jurisdictional restrictions)?

Patents

The assignment of patents is provided for by 35 U.S.C. § 261, which states that both issued patents and pending applications are considered to have the attributes of personal property, and are transferable by written instrument. As personal property, they are governed by applicable state or local laws regulating personal property, and can be sold to others, mortgaged, bequeathed by will, or pass to the heirs of a deceased patentee. Since they are transferred by written instrument, they are governed by applicable state or local laws regulating contracts.

Patent assignees can transfer whole or partial interests in patents. For example, patentees who own an interest in a jointly-owned patent can only transfer their own interest. Similarly, a patentee can transfer his rights for a particular geographic region, or a particular field of use.

It is possible to assign future as well as existing patent and related rights (see *Question 7*).

Trade marks

Trade mark rights are territorial. Both registered and unregistered trade marks can be assigned in whole or in part. A registered trade mark is assigned in part when it is limited to some, but not all, of the goods or services for which the mark is registered, or where it is limited to use in a particular manner or locality.

However, neither a registered nor unregistered mark can be transferred without some goodwill. If no goodwill is transferred, the assignment is deemed ineffective. For this reason, an abandoned trade mark is not capable of assignment. Once the mark has been abandoned, there is no remaining goodwill, and therefore there is no assignable property right.

It is possible to assign domain names (*see Question 7*).

Copyright

The assignment of copyright is provided for by 17 U.S.C. § 201(d). Much like patents and trade marks, copyrights are territorial, and are personal property subject to state and local laws. Assignments of copyrights can be whole or partial. A partial assignment disposes of only part of the work or some of the copyright owner's exclusive rights in relation to the work.

It is possible to assign future as well as existing copyright and related rights, in addition to dividing copyright by territory or field of use.

Trade secrets

An assignment takes the form of obligations to both disclose the trade secret to the assignee and not to use or disclose the information once ownership has transferred.

7. What formalities are required to assign each of the main IPRs (for example, in writing, signed by both parties and registration)?

Patents

An assignment must be in writing and signed by or on behalf of the parties (*see Question 6*). Recordation is not required to make the transfer effective; however, it is recommended that an assignment be recorded.

Trade marks

Under 15 U.S.C. § 1060, an assignment of a registered trade mark must be in writing and duly executed. Much like patents, the USPTO recommends that assignments should be registered with the USPTO to ensure the transaction is effective against all third parties.

Unregistered trade marks must be assigned with the relevant trading goodwill, and it is advisable for the assignment to be in writing.

Copyright

A transfer of exclusive rights to a copyrighted work is not valid unless the transfer is in writing, and signed by the owner of the copyrighted work. A transfer of non-exclusive rights is not required to be in writing but, without a written agreement, a non-exclusive licence may be personal to the current owner, and may be lost if the copyright is subsequently assigned to a new owner.

While the US Copyright Office provides a formal location for the recordation of assignments, recordation is not required to make the transfer effective.

Trade secrets

There are no formalities for assigning trade secrets but it is advisable for any agreement to be in writing (*see Question 6*).

8. What main terms should be included in an assignment of IPRs?

Parties are free to contract on whatever terms they choose. However, it is advisable to include the following terms in an assignment:

- A definition of the IPRs being transferred, and any rights the assignor will retain in the IPRs.
- Representations and warranties that the IPRs are capable of assignment and that the assignor has title to the IPRs.
- Whether the agreement is an actual assignment, an agreement to assign in the future, or an option to assign.
- Whether either party will indemnify the other from claims relating to the transferred IPRs.
- Which party bears the risk of any pre-existing claims to the IPRs.
- The extent the assignor agrees to assist the assignee with perfection of title, hand-over of documents, and other procedural issues.

LICENSING

9. How can each of the main IPRs be licensed (for example, in whole or part, with or without goodwill (in the case of trade marks), and with jurisdictional restrictions)?

Patents

Patent licences can be exclusive or non-exclusive. Exclusive licences are permitted by 35 U.S.C. § 261. An exclusive patent licence grants rights under the patent to the licensee, excluding even the licensor unless such rights are otherwise reserved by the licensor. Non-exclusive patent licences can be granted to multiple licensees.

Trade marks

Trade mark licences are permitted by 15 U.S.C. § 1055, which requires the trade mark owner to control the use of the mark with respect to the “nature and quality” of the licensee’s goods and services. Trade mark licences can be exclusive or non-exclusive, in each case, without goodwill. Domain names can also be licensed.

Copyright

Any or all of the exclusive rights subsisting in a copyrighted work can be licensed on an exclusive or non-exclusive basis.

Trade secrets

Trade secrets can be licensed exclusively or non-exclusively.

10. What are the formalities to license each of the main IPRs (for example, is registration required)?

Patents

Under 35 U.S.C. § 261, exclusive patent licences must be in writing. Non-exclusive patent licences need not be in writing, unless otherwise required by state law. Patent licences can be recorded with the USPTO (*see Question 7*).

Trade marks

Trade mark licences need not be written, unless otherwise required by state law, but are strongly recommended to be in writing. Trade mark licences can be recorded at the discretion of the USPTO.

Copyright

An exclusive licence to copyright must be in writing and signed by the owner of the rights conveyed. Non-exclusive copyright licences need not be in writing, unless otherwise required by state law, but a written agreement is strongly recommended as an unwritten non-exclusive licence may be personal to the current owner of the copyright, and may not transfer in a subsequent assignment of such copyright. Any licence or other document relevant to copyright that complies with copyright recordation requirements can be recorded in the US Copyright Office.

Trade secrets

Trade secret licences need not be written, unless otherwise required by state law, but are strongly recommended to be in writing. As trade secrets are created through contract, there is no opportunity to register or record such licences.

11. What main terms should be included in an IP licence?

The main terms that should be included in an IP licence include:

- Description of IPRs licensed.
- Extent of exclusivity.

- Field of use restrictions, if any.
- Rights and limitations on sublicensing.
- For trade mark licences, goods and services quality control and approvals.
- Licence fees and royalties.
- Warranties and indemnification for IP infringement.
- Term and termination events.

TAKING SECURITY

12. Is security commonly taken over IPRs? If yes, which types of IPRs are commonly secured? What problem areas commonly arise (for example, problems valuing the secured IPR assets, or when enforcing the security)?

Security interests are commonly taken in IPRs. Valuation and enforcement of security interests are more complicated issues for IPRs when compared to tangible assets, such as real estate. While some IPRs can generate income in isolation, an IPR is often part of a group of IPRs used in a business. An IPR may have limited value outside that business or IPR group. The value of security can change when IPRs are subject to challenge, infringement or where renewal fees are not paid on time.

Enforcing the security interest can raise additional issues where the party taking security is not involved in similar commercial dealings to the business and will be unable to use the asset. It is common for IPRs to be included in security interests taken over all the assets of a company.

13. What are the main security interests taken over IPRs? How are they created (for example, in writing) and how are they perfected (that is, made enforceable against third parties, for example by registration)? Consider:

- Patents.
- Trade marks.
- Copyright.
- Design rights.

Security interests in patents, copyrights, and trade marks should be in writing. Within three months of the interest being taken, the security interest should be recorded with the appropriate registration authority. Security interests in patents and trade marks should be recorded with the USPTO, and security interests in copyrights should be recorded with the US Copyright Office. This will protect the secured party from subsequent buyers for value claiming an interest in the IPR.

M&A**14. What IP-related due diligence is commonly carried out in:**

- **A share sale?**
- **An asset sale?**

Due diligence is more likely to be determined by the industry and specifics of the business of the target, rather than the transaction's legal structure.

The acquiror should determine the IPRs owned and licensed by the target. Registration records should be searched to identify registrations and applications owned in significant jurisdictions worldwide. Prosecution and maintenance history of such IPRs should also be reviewed to assess IPR protection.

Inbound licences should be reviewed for:

- The scope of rights granted.
- Financial obligations and penalties.
- Potential for infringement liability.
- The need for third party consents.

The acquiror should also determine any restrictions on significant IPRs owned or licensed by the target imposed by outbound licences.

Agreements with employees and consultants should be reviewed for proper transfer of ownership of developments (see *Questions 22 and 23*). Security procedures should be assessed to ensure adequate trade secret protection and compliance with third party confidentiality obligations.

The acquiror should review allegations of infringement pending against the target and by the target. Settlements and other similar arrangements with respect to prior litigation should be reviewed to ensure final resolution.

15. What IP-related warranties and/or indemnities are commonly given by the seller to the buyer in:

- **A share sale?**
- **An asset sale?**

Representations and warranties are more likely to be determined by the industry and business of the target, rather than the transaction's structure. Sellers commonly represent and warrant in relation to:

- Accuracy of listing of all registered IPRs and applications for IPRs.
- Validity and enforceability of registered IPRs.

- Sufficiency of all IP necessary to make, use, sell, offer to sell, and import the target's products.
- Accuracy of inbound and outbound licences listing, and the target's compliance with such contracts.
- Taking of reasonable measures to maintain trade secrets.
- Absence of any joint ownership interest, royalty interest or licence right in the target IPRs except as disclosed.
- Non-infringement of third party and target IPRs (each is often qualified to the knowledge of the seller).

16. How are the main IPRs transferred in:

- **A share sale?**
- **An asset sale?**

Share sale

In a share sale, the transfer of stock effects the transfer of the IPRs owned by the transferred entity. IPR controlled by the entity by means of contract, such as licences, may be subject to change of control or similar provisions that require the consent of third parties for continued rights to practise after the transfer.

Asset sale

In an asset sale, the transferor assigns the IPRs and contracts conferring rights to such IPRs (for further information on assignment of IPRs, see *Questions 6 and 7*). Licences, non-disclosure agreements, covenants not to sue and other contractual arrangements must be assigned to the transferee, subject to transfer restrictions or other consent requirements by the applicable counterparties.

JOINT VENTURES**17. Is it common for companies to set up joint ventures in your jurisdiction to develop projects that heavily involve IPRs? If yes, please briefly outline the main IP-related provisions that should be included in the joint venture agreement.**

Joint ventures are commonly formed in the US to structure IPR transactions where the parties wish to combine resources, share profits, and limit liability to their share in the joint venture equity, as joint ventures typically involve the formation of a separate legal entity. Contributions of IPRs can often involve licences to the joint venture. Each licence agreement should include the terms described in *Question 11* and include the following terms tailored to the venture:

- Ownership and use rights to IPRs developed by the venture.
- Allocation of enforcement rights and obligations of the venture.

- Allocation of maintenance rights and obligations of the venture.
- Licensors' obligations to provide technology transfer assistance to the venture.
- Protection and use of trade secrets of the parties.

COMPETITION LAW

18. Please briefly outline the main provisions of your national competition law that can affect the exploitation of the main IPRs.

While US federal antitrust law does not specifically reference IP, the Sherman Act (15 U.S.C. §§ 1 - 7), the Clayton Act (15 U.S.C. §§ 12 - 27, 29 U.S.C. §§ 52 - 53) and the Federal Trade Commission Act (15 U.S.C. § 41 *et seq.*) are relevant to the exploitation of IPRs. Individual states have enacted competition laws; however, these state laws have been applied in a manner similar to federal antitrust laws.

Section 1 of the Sherman Act prohibits unreasonable restraints of trade, while Section 2 of the Sherman Act prohibits monopolisation and attempts to monopolise. Section 7 of the Clayton Act prohibits anti-competitive acquisitions, including acquisitions of IPRs. The Federal Trade Commission Act prohibits unfair methods of competition, and has generally been interpreted as co-extensive with the Sherman Act.

The Department of Justice and the Federal Trade Commission each enforce US federal antitrust law. Understanding the need for a policy to reconcile antitrust law with the potential for anti-competitive misuse of IPRs, the Department of Justice and the Federal Trade Commission issued in 1995 the Antitrust Guidelines for the Licensing of Intellectual Property (IP Guidelines).

19. Please give brief practical examples of national competition law issues that can arise in the exploitation of the main IPRs (such as problematic licence terms) and briefly outline any possible solutions to manage them.

Courts apply two types of rules in evaluating business arrangements challenged as anti-competitive practices. Some "naked" restraints among competing licensors, such as price fixing, market allocation, and group boycotts, are deemed illegal per se, without regard to any pro-competitive justifications.

Most practices involving IP, including all licensing agreements between firms that would not be competitors without the licence, are analysed under the antitrust "rule of reason," which asks whether the agreement is on balance anti-competitive. While a series of factors are weighed, the primary considerations are the extent of market power or market share of the parties to the transaction, and whether the restraint in question is "reasonably necessary."

In this context, field of use restrictions, exclusive licences (where one party has the right to grant sublicences) and substantial royalties are rarely challenged as violations of antitrust law in themselves.

While challenges to grantback requirements in licences of IPRs have rarely been successful, the caselaw and the IP Guidelines recognise that grantbacks may be anti-competitive if they reduce the licensee's incentives to innovate. In evaluating such arrangements, courts and the enforcement agencies generally consider whether the grantback is exclusive, and, if so, whether the licensee retains the right to use the improvements. Other factors considered are:

- Whether the grantback permits the licensor to grant sublicences.
- The duration of the grantback.
- The market power of the parties.
- Whether the parties are competitors.

Exclusive dealing arrangements require the licensee to deal only with the licensor, which may block competition directed to the licensor. Enforcing agencies consider the:

- Market share of the licensor.
- The combined market share of the licensees subject to this exclusive.
- The exclusivity term.

20. What exclusions or exemptions are available for national competition law issues involving the exploitation of the main IPRs (for example, are parallel exemptions available)?

US antitrust laws do not provide any statutory exemptions or exclusions applicable to IPRs.

The IP Guidelines, which are not binding on the Department of Justice or Federal Trade Commission but do summarise their enforcement policy, articulates a "safety zone" or safe harbour for licensing transactions involving certain identified restraints (see *Section 4.3, IP Guidelines*).

A restraint in an IP licensing transaction will not be challenged by the enforcing agencies without extraordinary circumstances if the restraint is not "facially anticompetitive", and the combined market share of the licensors and licensees does not exceed 20% of the market affected by the restraint in question. Other "safety zones" apply to the special circumstances of technology and innovation markets.

ADVERTISING

21. Please briefly outline the extent to which advertising laws impact on the use of third party trade marks.

Advertisers can use the trade marks of third parties as permitted within the contours of the trade mark fair use doctrine. Under 15 U.S.C. § 1115(b)(4), an advertiser can use another's individual name or a term or device in a descriptive manner, that is fair and in good faith, to describe the advertiser's own goods or services or their geographic origin. Advertisers can also use a

third party's marks in comparative adverts if such use is truthful and does not confuse consumers as to the source or affiliation of the advertised goods and services.

The Federal Trade Commission Act (*15 U.S.C. § 41 et seq.*) also regulates trade mark use to the extent such use gives rise to unfair or deceptive acts or practices in commerce.

EMPLOYEES AND CONSULTANTS

22. Who owns each of the main IPRs created by an employee in the course of his employment? Is compensation payable in relation to employee IPRs? What main steps can an employer take to ensure it owns each of the main IPRs (for example, by including an assignment of IPRs clause in the employment contract)?

Patents

State law governs ownership rights in patentable inventions. The general rule is that, without an express agreement to the contrary, an individual owns the patent rights in an invention of which he is a sole or joint inventor, even if the invention was conceived and/or reduced to practice during the course of employment. However, an employer owns an employee's inventions if the employee was initially hired or later directed to solve a specific problem or to exercise his inventive abilities.

Trade marks

Ownership of a trade mark as between an employer and employee depends on who first uses the mark to identify its goods and/or services. If an employee creates a mark in the course of employment and the employer first uses the mark to identify its goods or services, the mark is owned by the employer.

Copyright

Unless the parties expressly agree otherwise, a work prepared by an employee within the scope of his employment is owned by the employer, who is deemed the author of the work for copyright purposes.

Trade secrets

The Uniform Trade Secrets Act contains no provision regarding ownership of trade secrets in the employer/employee relationship. Courts generally have found that if an employee is hired to perform research and development work, the employer is the owner of the resultant trade secrets.

General IPR considerations in the employment context

It is advisable for employers to require employees to execute written employment agreements that:

- Assign to the employer inventions or discoveries made by employees.
- Acknowledge that authorship is within the scope of employment.

- State that works created by employees will be works for hire.

There are no general compensation requirements regarding IPRs in the US.

23. Who owns each of the main IPRs created by an external consultant? What main steps can a business take to ensure it owns each of the main IPRs (for example, by negotiating an assignment of IPRs)?

Patents

State law governs ownership rights in patentable inventions. Without an express agreement to the contrary, an external consultant generally owns the patent rights in an invention of which he is a sole or joint inventor.

Trade marks

Ownership of a mark created by an external consultant follows first use of the mark to identify goods and/or services. If an external consultant is commissioned to create a mark and the commissioning party first uses the mark to identify its goods and/or services, the mark is owned by the commissioning party.

Copyright

If a work is specially ordered or commissioned for use, as a contribution to a collective work, a part of a motion picture or other audiovisual work, as a translation, or as another work permitted under 17 USC § 101, and if the commissioning party and the contractor expressly agree in a written instrument that the work is a work made for hire, then the commissioning party owns the work and is the author of the work for copyright purposes. All other works created by an external consultant must be assigned to ensure ownership by the business.

Trade secrets

The Uniform Trade Secrets Act contains no provisions regarding ownership of trade secrets developed by external consultants. Without an express agreement, consultants generally own the trade secrets they develop.

General considerations for IPRs created by external consultants

It is highly advisable to execute written agreements with external consultants that assign to the company inventions and discoveries made by the consultants, and state that works created by the consultants that fall into a category of commissionable works will be considered works for hire.

TAX**24. What are the main taxes payable by a licensor on the licensing of the main IPRs (for example, withholding tax on royalty payments)?**

Tax treatment with respect to IPR transactions under US federal tax law is determined essentially by the:

- Characterisation as a licence or sale.
- Jurisdictional source of income.
- The effect of any applicable tax treaties (in relation to cross-border transactions).

Characterisation as a licence requires that there is a transfer to the counterparty of less than “all substantial rights” to the IPRs or an “undivided interest” in them (*see section 1.1235-1(b)(1), US Treasury Regulations*). Substantial rights to the IPRs can include, among other factors, exclusivity, the right to sublicense, and worldwide rights. Note that there can be a sale of a subset of the seller’s overall IPRs.

For transactions treated as licences, the source of royalty income is the jurisdiction of use of the IPRs (which includes where the IPRs are used and where the licensee has the right to use them, whether or not such use is exclusive and regardless of whether it actually occurs) (*see section 861, US Internal Revenue Code of 1986 (1986 IRC)*). For transactions treated as sales, the source of the sales gain is the residence of the seller except to the extent that the sales proceeds are contingent on the productivity, use or disposition of the IPRs, in which case the royalty source rule applies to such “contingent sales gain” (*see section 865, 1986 IRC*).

A licensor based in the US pays income tax on royalty payments from the licensee (*see sections 1 and 11, 1986 IRC*). A licensee located either in the US or in a foreign jurisdiction may be required to pay withholding tax on the royalty payments to the licensor; the same is true for the buyer of IPRs to the extent of the seller’s contingent sales gain. The US withholding tax rate for royalty payments to foreign licensors (and for contingent sales gain derived by foreign sellers) is currently 30% (*see sections 1441 and 1442, 1986 IRC*). Applicable tax treaties may reduce the withholding tax rate, often to 0% (*section 894, 1986 IRC*).

25. What are the main taxes payable by a seller on the disposal of the main IPRs?

A US-based seller pays income tax on the gain from the sale, frequently at capital gains rates (*see sections 1 and 11, 1986 IRC*). A non-US seller is generally only taxable on such gain if the gain is effectively connected with the seller’s US business, although US-source “contingent sales gain” (*see Question 24*) is taxed under the royalty withholding rules applicable to foreign licensors if it is not so connected (*see Sections 871(a)(1)(D), 871(b) and 882, 1986 IRC*).

CROSS-BORDER ISSUES**26. What international IP treaties is your jurisdiction party to?**

The major IP treaties to which the US is a party are:

- WIPO Paris Convention for the Protection of Industrial Property 1883 (Paris Convention).
- WIPO Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks 1989 (Madrid Protocol).
- WIPO Trademark Law Treaty 1994.
- WTO Agreement on Trade-Related Aspects of Intellectual Property Rights 1994 (TRIPS).
- WIPO Copyright Treaty 1996.
- WIPO Performances and Phonograms Treaty 1996.
- Berne Convention for the Protection of Literary and Artistic Works 1971.
- Universal Copyright Convention 1971.
- Patent Cooperation Treaty 1970 (PCT).
- WIPO Patent Law Treaty 2000.
- North American Free Trade Agreement 1994 (NAFTA).

27. Are foreign IPRs recognised in your jurisdiction? Please briefly outline any relevant recognition or registration procedure for each of the main IPRs.**Patents**

The US is a party to the Paris Convention; therefore, an applicant for patent in the US may be entitled to priority rights based on the filing of a patent application for the same invention in a foreign country within the preceding 12 months. In addition, the US is a party to the PCT. An applicant can file an international application in one PCT Contracting State and designate in it those PCT Contracting States in which patent protection is desired.

Trade marks

Under the Madrid Protocol, a trade mark owner can file one Madrid Protocol application, based on a national application to register the mark in the owner’s country, and can designate those Madrid Protocol member countries (including the US) in which the application is to be effective. The application has the same effect as an application for registration of the mark in each of the countries designated by the applicant.

Through the Paris Convention, certain benefits are provided in the US to qualified owners of foreign trade mark applications or registrations. A qualified foreign applicant who files a US application within six months of filing the first application to register the mark in a treaty

country will receive an effective filing date that is the filing date of the foreign application, so long as certain conditions are met. A qualified foreign applicant who owns a valid registration from the applicant's country of origin can obtain a US registration on the basis of that foreign registration, again so long as certain conditions are met.

Copyright

The US Copyright Act extends protection to unpublished works without regard to the nationality or domicile of the author. The US Copyright Act extends protection to published works by exclusively foreign nationals and domiciliaries only in certain circumstances. As a result of the various copyright treaties to which the US is a party (see, for example, *Question 26*), published works authored by foreign nationals and domiciliaries are subject to protection under the US Copyright Act if they comply with certain requirements.

Trade secrets

Protection in the US of the trade secrets of foreign owners is the same as for the trade secrets of domestic entities.

REFORM

28. Please briefly summarise any proposals for reform and state if they are likely to come into force and, if so, when.

Congress introduced the Patent Reform Act of 2007. Asserted to largely target litigation abuse, this bill proposes a wide variety of reforms, including:

- A shift to a first-to-file priority system.
- Elimination of the interference proceeding.
- Adjustments to the law on wilful infringement and inequitable conduct.

The bill remains pending; however, it appears more likely than not to pass this year.

In early 2007, the Freedom and Innovation Revitalizing US Entrepreneurship Act of 2007 was introduced. The proposed legislation seeks to limit the Digital Millennium Copyright Act, by providing permanent exemption status to certain classes of works, and new exceptions to liability for the circumvention of copyright protection measures. The bill remains pending.

In December 2007, Congress introduced the Performance Rights Act, which would require terrestrial broadcasters to pay a statutory royalty to recording artists for the right to play their sound recordings over the air. The US is the only developed country in the world which does not charge such a royalty. The bill was recently introduced and remains pending.

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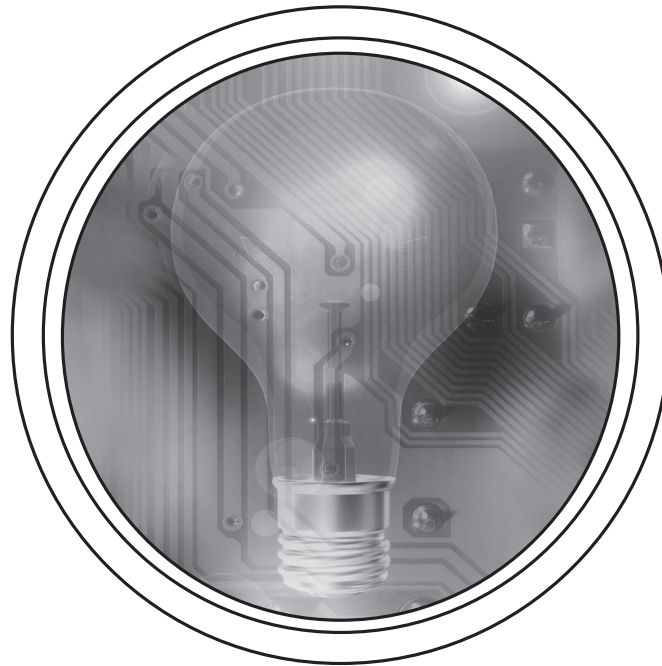
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