Intellectual Property in Consumer Electronics, Software and Technology Startups

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Introduction

Creativity can create economic value. This maxim holds as true for the electrical technology industry—which comprises, for the purposes of this book, a broad spectrum of companies that deal in consumer electronics, computers, wireless technology, electrical components, etc.—as it does for other industries. Such value may come from a new innovation, edging out competitors in a market, creating a revenue stream where there was none, or increasing market reputation. This book provides an introduction to intellectual property law as applied to the electrical technology industry. This area of law provides the legal framework for bridging creativity and the value that may come from it. Through the proper use of intellectual property law, one has a much better chance of transforming creativity into economic value.

Intellectual property law recognizes a creator's rights in ideas, innovations, and goodwill. Being intangible, intellectual property differs from real property (land) or personal property (physical possessions) that are secured, controlled, and protected using physical means such as fences, locks, alarms, and guards. Because intellectual property is a product of the mind, there is often no easy way to build a "fence" around it. Consider some of the most valuable trademarks in the world: Apple® and Microsoft®. These companies could not protect these marks with a physical fence. It is intellectual property law that provides a legal fence of trademark protection to protect the goodwill of the two trademarks. Consider also the numerous novel products—software and hardware—that these technology giants regularly introduce to the market after investing significantly in research and development. Intellectual property, in the form of patents, plays a key role maximizing the companies' revenue from these investments, by protecting them from the market impact of knock-off products, by encouraging mutually beneficial cooperation with competitors through licensing deals, and in some cases, by providing a company with bargaining chips that can be used to avoid litigation.

There are many intellectual property pitfalls that await the unwary. Different rules apply to different types of intellectual property (IP) and you may forfeit your rights if you do not take the appropriate measures to secure and protect them. It is important to understand the types of IP protection and the respective rules that govern each type of IP.

1. *Patent*: Patents may be granted for the invention of any new and useful process, machine, manufacture or composition of matter, or any new useful improvement thereof. A patent is a property right that grants the inventor or owner the right to exclude others from making, using, selling, or offering to sell the invention as defined by the patent's claims in the United States for a limited period of time.
2. *Trademark*: A trademark is a word, phrase, symbol, or design, or combination of words, phrases, symbols, or designs which identifies and distinguishes the source of the goods or services of one party from those of others. Trademarks promote competition by giving products corporate identity and marketing leverage.
3. *Copyright*: Copyrights protect original works of authorship fixed in a tangible medium of expression. Copyrighted works include literary, dramatic, and musical compositions, movies, pictures, paintings, sculptures, computer programs, etc. Copyright protects the expression of an idea, but not the idea itself.
4. *Trade Secret*: Generally, a trade secret is any formula, manufacturing process, method of business, technical know-how, etc., that gives its holder a competitive advantage and is not generally known. The legal definition of a trade secret and the protection afforded to a trade secret owner varies from state to state.

Table [xvii](#) highlights some of the attributes of and distinctions between these different types of IPs:

Table xvii Different types of IP's-attributes and distinctions

	Patent	Trade Secret	Trademark	Copyright
Underlying theory	Limited monopoly to encourage innovation in exchange for disclosure of invention to the public	Protects proprietary and sensitive business information against improper acquisition	Used to identify the source of a product or service to consumers, and to distinguish the source of products or services from other sources	Limited monopoly to encourage the authorship of works
Subject matter	Processes, machines, articles of manufacture, compositions of matter, asexually reproduced plants, designs for articles of manufacture. Laws of nature, mathematical algorithms, natural phenomena, mental steps, etc. are not patentable	Formulas, patterns, compilations, programs, devices, methods, techniques, processes, etc., that derive independent economic value from being "secret"	Trademarks, service marks, trade names, certification marks, collective marks, trade dress	Literary, musical, choreographic, dramatic, and artistic works <i>limited by</i> idea/expression dichotomy (no protection for ideas, systems, methods, procedures); no protection for facts/research
Legal source	Patent Act (35 U.S.C. § 100 <i>et seq.</i>)	State statutes (e.g., Uniform Trade Secrets Act); common law	Lanham Act (15 U.S.C. §§ 1051–1127); common law	Copyright Act (17 U.S.C. 101 <i>et seq.</i>); some limited common law
Legal standards	Must be patentable subject matter, novel, non-obvious, and useful	Information must not be generally known or readily available. Reasonable efforts to maintain secrecy must be taken	Must be distinctive or carry a secondary meaning (for descriptive and geographic marks), and must be used in commerce	Must be an original work of authorship fixed in a tangible medium
Scope of rights	Exclusive right to prevent others from making, using, selling or offering to sell the subject matter of the patent	Protection against improper acquisition by others	Exclusive right to use the mark within a particular territory depending on the type of trademark protection	Exclusive right to perform, display, reproduce, or make derivative works

(continued)

Table xvii (continued)

	Patent	Trade Secret	Trademark	Copyright
Term	20 years from application filing date	No time limitation. Protection is available as long as kept secret	No time limitation. Protection is available as long as used in commerce	Generally, the term is the life of the author plus 70 years. For works of corporate authorship, the term is 120 years after creation or 95 years after publication, whichever endpoint is earlier
Enforcement/ Remedies	File suit for patent infringement. Remedy can be damages (lost profits or reasonable royalty) and injunctive relief	File suit for misappropriation, conversion, or breach of contract. Remedy is typically damages	File suit for trademark infringement. Remedies can include injunctive relief, accounting for profits, destruction of goods, etc.	File suit for infringement. Remedies include injunctive relief, destruction of infringing goods, and damages (actual or profits or statutory damages)

Patents, trademarks, trade secrets, and copyrights all have a strong presence in the electrical industry. Patents and trademarks are the most common means of IP protection in this industry.

As evidenced by the steady stream of novel high-tech offerings and the rate at which the latest gadgets become “obsolete,” companies in the electrical industry invest millions in research and development to meet the immense demand for new, useful technologies, and to help bring to market the next wave of cutting-edge products for consumers. The fruits of this research and development—which gives rise to the technologies themselves or to a key component of a particular products’ functionality—are typically protected through patents. The following Table [xx](#) shows a sampling of some electrical technology classes of patents and how many have been issued by the United States Patent and Trademark Office (USPTO).

Table xx Electrical classes of patents and number of issued patents by USPTO

Class	Class title	Pre-2000	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	All years
320	Electricity: battery or capacitor charging or discharging	2191	361	397	355	295	251	208	183	186	246	503	623	5799
323	Electricity: power supply or regulation systems	3286	305	344	327	292	277	294	400	384	375	491	576	7341
326	Electronic digital logic circuitry	4562	545	596	596	523	562	517	550	667	658	578	749	1103
336	Inductor devices	1421	127	136	179	203	184	243	222	205	185	152	257	3514
338	Electrical resistors	2139	103	100	105	80	53	50	97	69	47	49	97	2989
345	Computer graphics processing and selective visual display systems	11088	1635	1876	1866	1885	2171	2007	2940	2488	2352	2594	3322	36224
349	Liquid crystal cells, elements, and systems	4454	653	621	628	859	1007	993	951	842	997	1409	1692	15106
717	Data processing: Software development, installation, and management	1406	378	513	341	347	421	481	763	717	714	829	1314	8224

Companies also invest millions in advertising and marketing their brands in order to build up goodwill and consumer loyalty toward their products. Many of the “supermarks”—i.e., trademarks that have achieved a level of popularity to be considered a household name—come from various branches of the electrical technology industry, including AT&T®, Apple®, GE®, Google®, Intel®, Microsoft®, Samsung®, and Sony®. Marks such as these are among the world’s most valuable and are instantly recognized by the general consuming public worldwide as a designation of source and associated with an expected level of quality. Indeed, the electrical industry is characterized by significant brand loyalty, and many purchasing decisions are based on brand name alone.

In short, it is very important for a company operating in the electrical industry to secure patent (and, where appropriate, trade secret) rights in its research and development, and to invest in brand and reputation by filing for trademark protection. Once secured, a company can enforce its intellectual property rights against a competitor. Several notable examples are summarized below.

- (1) In *NTP, Inc. v. Research-In-Motion*, Case No. 03-1615, 418 F.3d. 1282 (Fed. Cir. 2005), NTP Inc. (NTP), owner of several patents relating to the integration of electronic mail with radio frequency wireless communication networks, sued Research in Motion (RIM), which is the Canadian seller of BlackBerry®, in the United States alleging that elements of the BlackBerry® system infringe various method and system claims of NTP’s patents. The Court of Appeals for the Federal Circuit (CAFC) reversed the district court’s finding of direct infringement under section 271(a) of an asserted method claim because at least one of the asserted patented method steps occurred in Canada. The CAFC, however, affirmed the district court’s ruling of infringement of certain system claims notwithstanding the fact that a key component of the claimed system was located outside the United States.
- (2) In *Ebay Inc. v. Mercexchange LLC*, 547 U.S. 388, 126 S.Ct. 1837 (2006), eBay the online auction site, practiced online auction technology for which MercExchange owned patents, including a patent which covers eBay’s “Buy it Now” function. Initiating negotiations, eBay sought to outright purchase MercExchange’s online auction patent portfolio in 2000, but then abandoned the negotiations. MercExchange sued eBay for patent infringement. The U.S. Supreme Court unanimously decided that an injunction should not automatically issue based on a finding of patent infringement. Furthermore, an injunction should not be denied purely on the basis that the plaintiff does not practice the patented invention. Rather, a federal court must weigh what the Court described as the four factors traditionally used to determine if an injunction should issue.
- (3) In *KSR Int’l Co. v. Teleflex*, 550 U.S. 398 (2007), Teleflex, Inc. sued KSR International, claiming that a KSR product infringed Teleflex’s patent on connecting an adjustable vehicle control pedal to an electronic throttle control. KSR argued that the claim was not patentable because the combination of the two elements was obvious. The district court ruled in favor of KSR, but the

Court of Appeals for the Federal Circuit reversed. The Supreme Court unanimously reversed the judgment of the Federal Circuit, holding that the disputed claim of the patent was obvious under the requirements of 35 U.S.C. § 103 and that in “rejecting the District Court’s rulings, the Court of Appeals analyzed the issue in a narrow, rigid manner inconsistent with § 103 and our precedents,” referring to the Federal Circuit’s application of the “teaching-suggestion-motivation” (TSM) test.

The above cases were filed in federal court to enforce federal IP rights. Another commonly used option is to file suit in the International Trade Commission (ITC) to prevent the importation of articles that infringe a valid and enforceable U.S. patent, registered copyright, or trademark. For example, in 2009, a U.S. company claimed that Research-in-Motion’s BlackBerry devices, servers, and desktop software infringe a patent for an authentication system that can be used with services conducted over the Internet in a complaint to the ITC. *In the Matter of Certain Authentication Systems, Including Software and Handheld Electronic Devices*, Complaint No. 2699. Research-in-Motion is a Canadian company. Ultimately, after five months of negotiations, the parties reached a settlement agreement.

This book illustrates how intellectual property rights can apply by presenting examples from real-world companies. Case studies are used throughout the book to demonstrate how intellectual property rights, management, and business all work together in industry. The examples throughout the book will relate to well-known companies and products that many readers will be familiar with.

Part I of this book provides a comprehensive overview of the most common forms of intellectual property rights. Part II provides guidelines for how high-tech consumer electronics and computer software technology companies can properly secure and implement their intellectual property rights. Part III discusses different monetization strategies, including but not limited to the enforcement, leveraging, and licensing of IP rights.

Examples and Illustrations Throughout this Book

Examples and illustrations will be used throughout this book. Some are real-world scenarios featuring well-known companies. Others are hypothetical scenarios. These are intended to enhance the reader’s understanding of the subject matter contained in the chapters.