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Don't Ax "Best Mode"

Congress is now considering several amendments to the Patent Act, enacted in 1952. In my opinion, any patent reform must continue to encourage the full disclosure of each invention through the "best mode" requirement, not accommodate the veiling of parts of the invention in a cloak of secrecy.

The Federal Trade Commission (FTC) and the National Academies of Science, among others, have suggested sweeping reforms to the U.S. patent system in an apparent effort to improve the system. This has culminated in a bill identified as H.R. 2795 and known as the Patent Reform Act of 2005, introduced by Representative Lamar Smith, R-Texas, chairman of the House Intellectual Property Subcommittee. One provision in the bill relates to the elimination of the best-mode requirement in patent practice. This requirement mandates an inventor on a patent application to disclose in the application the best aspects of the invention known to him or her at the time of filing the patent application.

The requirement ensures that the inventor will not be able to "have his cake and eat it too" by disclosing only nonpreferred aspects of the invention while keeping the invention's "crown jewels" a trade secret. A trade secret kept under wraps can have a duration that lasts forever—or at least as long as it provides the holder with a competitive advantage and is not generally known in the industry to which it pertains.

Without the best-mode disclosure requirement, the public is denied the benefit of access to the "heart of the invention" in the published patent. Such a result would have the effect of stifling innovation by undermining the functioning of the patent system, and increasing technology development costs to society and other would-be inventors.

Moreover, elimination of best mode runs counter to the FTC's stated interest in making patents easier to attack. To the contrary, such elimination would make patents harder to attack by allowing patents that do not describe the inventor's best mode to nonetheless stand as valid patents. The best-mode disclosure requirement has stood the test of time in our patent system since 1870. It should not be eliminated without good reason. The reasons that have been offered to date do not pass muster.

It is commonly asserted that the United States is unique among nations in requiring best-mode disclosure, and therefore our country should eliminate it in order to "conform to international practice." The premise for this conclusion is plainly wrong. In fact, some 20 countries subscribe to the best-mode requirement. Accordingly, it is illogical and counterproductive to cast the requirement aside in order to conform to international practice. Instead, the underlying public policy implications need to be taken into consideration before altering, much less abolishing, this disclosure requirement. *continued next page*

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*Counsellors at Law***Don't Ax "Best Mode"** *continued***DISCLOSING THE CORE OF INVENTIONS**

From a public policy perspective, the best-mode requirement is the linchpin of our patent system for the simple reason that it speaks not only to the quantity of information contained in the patent application, but also to the quality of the disclosure. The best-mode requirement compels disclosure of the very heart of the invention as viewed from the inventor's perspective. The existence of the requirement provides a safeguard to the public against the natural tendency for inventors to disclose only what they know to be inferior modes of the invention, while maintaining the best for themselves. Most inventors will comply with the requirement—at least most inventors who are properly informed of the downside risk associated with nondisclosure of the best mode. That risk is that the patent will be held invalid.

Keeping the best-mode requirement in our patent system helps to ensure that the public will understand not only how to make and use the invention, but also the best way contemplated by the inventor of carrying it out. It helps ensure that others will have sufficient information to allow them to compete fairly with the patentee after the patent expires.

Eliminating best mode would doubtless slow down the evolutionary development of innovation. Such slowing would surely

have detrimental economic and societal implications. To allow the disclosure in a patent application to be watered down by elimination of the best-mode requirement would deprive the public of much-needed information about the invention, while allowing the inventor to have what is tantamount to a "patented trade secret" that could outlive the duration of the patent. Such a result would short-change society in the bargain that the inventor strikes with the public in exchange for the patent grant.

In conclusion, elimination of best mode is ill-conceived and ill-advised. It should be taken out of the bill when Congress next considers the bill.

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Foreign Trademark Application:

Filing Strategies And Considerations

The three most common ways to protect trademarks and service marks outside the United States are:

- 1 National applications;
- 2 European Community Trademark (“CTM”) applications; and
- 3 International applications under the Madrid Protocol.

While each application provides comparable protection of marks once registered, the application processes differ in significant respects, and each has its pros and cons.

NATIONAL APPLICATIONS

A National Application is an application that is filed in a single country and prosecuted and enforced under the laws in that country. National applications are usually filed with the assistance of a trademark attorney in the desired country, and the costs generally range from \$300 to \$2,000, plus government filing fees. Filing national applications in individual selected countries may be a good approach if targeted protection in specific countries is desired. If, however, trademark protection in more than a few countries is preferred, either a CTM or International application under the Madrid Protocol (both discussed below) may be a better option.

While in the U.S. rights in a trademark stem from first use of the mark, rights in nearly all foreign countries do not accrue

until an application is filed. Once a U.S. application is filed, an applicant may file corresponding applications in most foreign countries claiming the benefit of the U.S. filing date. Such applications must be filed within six months of the U.S. filing date and identify the same goods and services as the U.S. application.

Once national registrations are obtained in the desired foreign countries, the length of the registration, renewal requirements, and terms for cancellation due to nonuse are determined by the laws of each country. Similarly, any relief sought against an infringing party will be determined by the specific laws in each country.

CTM APPLICATIONS

A CTM application is a single trademark application which, if successful, secures one trademark registration covering the twenty-five member countries of the European Community.¹ The CTM application is filed through the Office for Harmonization in the Internal Market (“OHIM”) with the assistance of a European trademark attorney, and costs approximately \$2,500 including foreign filing and attorneys' fees plus an additional \$2,500 in registration fees once the application is granted. The CTM application provides significant cost savings in relation to the number of countries covered because it would cost

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Foreign Trademark Application

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many thousands of dollars more to secure registration in each of the individual member countries by filing direct national applications. Another benefit of a CTM registration is that use in any one member country is sufficient to support or defend an infringement action anywhere in the Community. Additionally, should another party infringe the registrant's rights and it seeks injunctive relief, the registrant may be able to obtain an injunction that covers the entire EU. However, one disadvantage of the CTM application is that should the application be refused under the laws of one member country, the entire CTM application will be refused. In such a situation, there is an opportunity to convert the CTM application to national applications in each of the other countries where the application has not been refused. Therefore, if registration in a particular country is crucial, as an added precaution, the applicant should consider simultaneously filing a national application in that particular country.

In terms of filing details, there is no requirement that a prior-filed application or registration be on record in the applicant's home country. However, if such an application exists, the applicant may file a priority-based CTM application within six months of the U.S. filing date to obtain the same filing date for the CTM application. Additionally, it is possible to broaden the identification of goods and services in the priority-based CTM application. However, those

additional goods and services will not be afforded the priority filing date.

The CTM registration will issue through OHIM and is valid for renewable ten-year periods from the filing date. Once registered, the mark must be in use in at least one member country within five years, or it is vulnerable to a nonuse cancellation action by an interested third party.

INTERNATIONAL APPLICATIONS UNDER THE MADRID PROTOCOL

An International filed application under the Madrid Protocol provides applicants with the opportunity to obtain protection in any or all of the sixty-five member countries² in a single application.

International applications may now be filed by U.S. attorneys at the U.S. Patent and Trademark Office. In addition to attorneys' fees, the basic filing fee for an International application is currently \$520, plus individual country fees in selected countries, which range from \$60 to \$400. A CTM application may also be filed using the Madrid Protocol process for an additional fee of about \$2,300.

Thus, like the CTM application, an International application provides significant cost savings through a single-application process that can afford simultaneous protection in many countries. However, unlike a CTM application, should the International application be refused in one of the designated countries, the entire application will not fail; the application will continue through the review process in all remaining designated countries,

with protection denied in the refusing country only.

In order to file an International application, the applicant must have a commercial establishment in its home country, or be a national of or domiciled in one of the member countries. In addition, there must be a prior-filed application or registration for the same mark in the applicant's home country.

As with national and CTM applications, a priority-based International application must be filed within six months of the U.S. filing date. After six months, the applicant may still file the application designating as many of the available countries as it chooses, but it will not be allowed to claim the U.S. filing date as the filing date in the designated countries. After the application is granted and an International Registration issues, the applicant may request protection in additional countries which, if granted, will become part of the International Registration with the same registration number. Whether or not the application is priority-based, the goods and services must be identical to those in the original home country application or registration.

International applications and registrations are examined and maintained by The World Intellectual Property Organization ("WIPO"). Once issued, an International Registration is valid for ten years and renewable through WIPO every ten years thereafter. For the first five years, however, the International registration is dependent on a valid home application or registration. Therefore, should a U.S. application become abandoned or the U.S. registration lapse or be cancelled, any corresponding

International Registration based on the U.S. application or registration will also be cancelled or lapse.

Should there be other specific requirements in the designated countries, the registrant must comply with those requirements in those particular countries. Additionally, once the International Registration is registered for five years, its validity is dependent only on the laws in the designated countries. Vulnerability to cancellation for nonuse by an interested third party varies by country. Likewise, infringement and injunctive relief will be governed by the individual country laws.

CONCLUSION

When considering trademark protection outside the United States, Applicants should first determine (1) which countries are the most important markets, and (2) where the mark is vulnerable to infringement, even if the goods or services are not sold there yet. Once these locations are determined, the choice of National, CTM, and/or International application(s) can be evaluated based on issues such as costs, priority filing dates and timing, risk of refusal, etc. Of course, the choice of the above foreign filing options varies depending on particular individual situations, and should be made in consultation with your trademark attorney.

Authored by:
Graceann A. Pisano

ENDNOTES

1. Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, The Netherlands, and United Kingdom
2. Albania, Antigua and Barbuda, Armenia, Australia, Austria, Bahian [will be as of December 15, 2005] Belarus, Benelux [Belgium, Luxembourg and the Kingdom of the Netherlands in Europe are to be deemed a single country for the application of the Protocol as from April 1, 1998], Bhutan, Bulgaria, China, Croatia, Cuba, Cyprus, Czech Republic, Denmark, Estonia, European Union, Finland, France, Georgia, Germany, Greece, Hungary, Iceland, Iran, Ireland, Italy, Japan, Kenya, Korea (Democratic People's Republic of Korea), Republic of Korea, Kyrgyzstan, Latvia, Lesotho, Liechtenstein, Lithuania, Macedonia (The former Yugoslav Republic of), Republic of Moldova, Monaco, Mongolia, Morocco, Mozambique, Namibia, Norway, Poland, Portugal, Romania, Russian Federation, Serbia and Montenegro, Sierra Leone, Singapore, Slovakia, Slovenia, Spain, Swaziland, Sweden, Switzerland, Syrian Arab Republic, Turkey, Turkmenistan, Ukraine, United Kingdom and Zambia

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Open Source Software in Merger and Acquisition Transactions

From general ledger systems to warehouse management applications, businesses large and small are dependent on information technology. As a result, understanding the license rights underlying such technology is a critical component of the due diligence process in every merger and acquisition transaction. The considerable growth of so-called open source software has further complicated that analysis. This article explains the meaning of “open source” software, highlights the risks and benefits of using such software, and provides suggestions for managing these risks in the specific context of a merger and acquisition (M&A) transaction.

There are two main types of software, proprietary and open source. The distinction between proprietary software and open source software rests largely in the nature and scope of their license grants. License agreements for proprietary software are typically drafted by each individual licensor and seek to preserve the economic value of the software by maintaining strict control over the embedded intellectual property rights and technical specifications. Licensors of proprietary software typically put limits on access to human-readable source code, the number and classes of people authorized to use the machine-readable object code, the types of uses permitted and the scope and duration of the licensed use.

In contrast, open source programs must be distributed under certain specific forms of license agreements. Currently there are more than 50 such licenses. The most popular, and most controversial, of these is the GNU¹ General Public License (GPL). Other well-known open source licenses include the MIT license, Berkeley Software Distribution (BSD) license, and the Mozilla Public License (MPL). All these forms of open source licenses either forego the common restrictions of proprietary licenses or impose them in ways that encourage, rather than curtail, broad distribution, modification and use. The licenses accomplish this in three common ways:

- 1 They require that the program be distributed in both machine-readable and human-readable source code form (or that a simple, well-publicized means to obtain the source code be provided by the vendor);
- 2 They prohibit the imposition of license fees or royalties; and
- 3 They allow the licensee to make modifications and derivative works of the software, so long as they are freely distributed under the same license terms governing the original software.

Although all open source licenses share these three elements, the type of license agreement used will often have a dramatic impact on the ability of a company to preserve the proprietary nature of its code.

The benefits of open source software result from the broad license scope and easy access to the software by countless developers. This encourages community development and creates an environment which, proponents say, results in faster product evolution, improved quality and reduced costs. Automatic, free access to the source code also gives companies the option to extend the life of the software through internal or outsourced development and support. This stands in stark contrast to the dependence on upgrades and continued support most proprietary software vendors intentionally cultivate with their licensees.

Whatever benefits it affords, however, the open source software model also presents several substantial risks. The undocumented chain of title and lack of contractual representations and warranties leave users and distributors open to third-party infringement claims. Additionally, the open source requirement that derivative works be distributed as open source with the related source code leaves open the possibility of an unintentional loss of proprietary rights. The GPL is the most aggressive in this regard, requiring that when proprietary code is combined with open source code licensed under the GPL, the entire combined work becomes open (that is, no longer proprietary). Some open source licenses try to limit the contaminative effect of open source code. The MPL, for instance, provides a mechanism for combining proprietary source code with open source code without such extreme results by limiting the “viral” effect to only those portions of

work that are included in the same files as the MPL code and by exempting proprietary code placed in separate files.

The risks of open source software in general, and in an M&A transaction in particular, can be managed through disclosure, representations and warranties, indemnification and insurance. The first step is for the buyer to demand full disclosure of all open source used by the target. This disclosure should include not only information about whether open source is present, but an express indication of the licenses being relied on by the target in using the open source. This inevitably requires working closely with the target's programmers, because they are in the best position to identify the full spectrum of open source incorporated into any software. The more complete the disclosure, the better able the buyer will be to determine the impact of the open source code on the proposed transaction. This impact will differ based on varying factors, including whether the affected software is intended for distribution or for internal use. If there are known risk factors involved with the software, if the software is of a mission-critical nature to the acquired business, or if the software is acquired for later sale to third parties, the buyer should take extra care in searching suspect code for the presence of open source software. There are now a number of third party open source detection tools that can be used for this purpose (e.g., protexIP from Massachusetts-based Black Duck Software).

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Open Source Software *continued*

Following disclosure and detection of all open source software, the buyer must assess the impact of such software on the value of the transaction and negotiate any necessary price adjustments. The buyer should then insist that certain contractual provisions be included in the purchase agreement. For example, the target should provide an express representation that the software does not contain any other open source code and that, even with respect to known open source, the target is in compliance with all applicable open source licenses. The target also should covenant that it will not release any software under an open source license before the acquisition is complete to insure that there is no “infection” of proprietary code. The seller should then indemnify the buyer for any breach of these representations. As with most indemnities, insurance is available.

The continued growth in the use of open source software, combined with the ongoing uncertainty about its authorized use under many forms of open source license agreements, underscores the importance of thorough software due diligence. At the same time, while the nature of open source development increases the risk of an infringement claim, the infringement risks presented by open source software are not radically different from those of proprietary software, and companies can manage those risks with available legal tools.

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ENDNOTES

1. GNU is a recursive acronym for “Gnu is Not Unix.”

This is a periodic newsletter designed to inform clients and others about recent developments in the field of intellectual property law. Nothing in this advisory constitutes legal advice, which can only be obtained as a result of personal consultation with an attorney.