OWN IT
The Law & Business Guide™ to Launching a New Business through Innovation, Exclusivity and Relevance

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Intellectual Property Reference Guide
Own It

The Law & Business Guide™
to Launching a New Business through Innovation, Exclusivity and Relevance

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Intellectual Property Reference Guide

A. From Business to Law – The Use of Intellectual Property in the Own It Method.

This purpose of this book has been to highlight successful strategies to help entrepreneurs achieve their goals. While the book may suggest opportunities to the reader, the innovation and perspiration must come from the entrepreneur. The first step toward success is the ability to see that a problem can be fixed, that there must be a better way, or that something which works well in another entirely different context might work to solve the problem at hand.

Only when the entrepreneur recognizes the need for a solution can he begin to craft one. Sometimes the solution is patentable, sometimes it can be protected by a trade secret and sometimes the law provides no absolute exclusivity. Without patents or trade secrets, the entrepreneur must rely on trademarks, copyrights and occasionally the power of celebrity to add publicity’s value to the enterprise.

For the successful enterprise, trademarks can make even the most common of commodities stand out from the crowd. Sometimes copyrights and publicity rights are all that are needed to make the mundane special enough to capture the marketplace.

Trademark, copyright, and publicity rights help build relevance to the consumer. The entrepreneur must know his market and provide the solution that the customer wants. The entrepreneur must solve the right problem in the right way, or even a patented solution will have no value.

If the entrepreneur has solved the problem with the right solution, then he must still struggle through the process of building the business in the right way, to protect his interests, respect his investors and finance his enterprise. All of this is necessary so that the business solution has a chance to compete in the marketplace.

This book does not provide a get-rich-quick answer to the challenges of innovation or transformation. Hopefully, however, the lessons in this book will help every manager, lawyer and business executive understand where success starts and where it can lead.

The Own It method described in this book serves as an outline on how to build that business. Through frank and candid conversations with potential investors, both entrepreneur and investor will know what to expect before the LLC is structured. By applying the lessons in this book, both the entrepreneur and the investor will be better protected by the business decisions they make. From formation to financing, every aspect of the company should be designed to maximize the potential for success and align the interests of the entrepreneur with the entity being formed.
The true measure of the *Own It* method may be its ability to encourage new entrepreneurs like Ronco’s Ron Popeil – visionaries willing to risk their pride to achieve independence and success. This book shares the secrets of success: the need for exclusivity, the importance of relevance, and the power of innovation. Hopefully, the book has provided enough examples, suggestions, and tips to open the world of entrepreneurship for every hard working visionary and give each the tools for success.

**B. How to Use the Reference Guide.**

The intellectual property reference guide should be used by all entrepreneurs who need a greater understanding of the types of intellectual property described throughout the book. While the guide does not replace the need to consult with an intellectual property attorney, it should simplify the meetings with those attorneys and explain the basics regarding the types of protection available for different types of inventions, ideas, drawing and brands.

Each of the chapters begins with an explanatory chart showing the subject matter or type of property covered by the law, the methods of how to obtain legal protection, and the parameters of the legal protection available.

The choice regarding which intellectual property protection to use does not need to be an either/or choice. An innovative child’s toy, for example, may have a patentable mechanism, artwork that can be copyrighted, titles and logos that will become trademarks, and a development life that included trade secrets. A contract with a famous person can result in the toy involving the publicity rights of the spokesperson featured on the packaging, and sales licenses can be drafted to give exclusive rights to another company so that it can develop the software or gaming systems that incorporate the key features of the toy. As a result, every conceivable aspect of intellectual property can be part of an idea’s development.

Following the Reference Guide are a series of sample agreements that help illustrate how to use these intellectual property rights in business. Taken together, the contracts and the Reference Guide should enable the entrepreneur to maximize the relevance and exclusivity of new products, services and business opportunities.
## Chapter 11. Patents and Patent Law

### A. Attributes of Utility Patents.

<table>
<thead>
<tr>
<th>Subject Matter:</th>
<th>Inventions or discoveries of any new and useful process, act or method, machine, manufacture, or composition of matter, or any new and useful improvement thereof.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Method Acquired:</td>
<td>Applied for by the inventor or joint inventors to the PTO. The entrepreneur or financing entity does not apply. An employee “employed to invent” does so for the benefit of the employer, who will own the patent.</td>
</tr>
<tr>
<td>Term:</td>
<td>20 years from the date on which the application for the patent was filed in the United States.</td>
</tr>
<tr>
<td>Time Needed to Acquire:</td>
<td>A patent application is generally published 18 months following the filing. The time for the issuance of the patent may be much longer.</td>
</tr>
<tr>
<td>Renewals:</td>
<td>Renewal not required, but payment of “maintenance” fee is required. Maintenance fees are due at 3 ½, 7 ½ and 11 ½ years from the date the patent is granted, due during a six month period preceding each period.</td>
</tr>
<tr>
<td>Transfer:</td>
<td>Fully transferable, through a signed writing. It should be recorded with the PTO within three months of execution.</td>
</tr>
<tr>
<td>Property Excluded from Protection:</td>
<td>Laws of nature; physical phenomena; abstract ideas; works of authorship; choreography and other processes involving human movement. Any machine, process that is not new or nonobvious.</td>
</tr>
</tbody>
</table>
B. Patents Explained.

The basic law of patents appears to be quite simple. “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”1 As the introduction to the patent section of the Patent and Trademark Office – Inventor’s Website explains:

A patent is a property right granted by the Government of the United States of America to an inventor “to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States” for a limited time in exchange for public disclosure of the invention when the patent is granted.2

1. Subject matter of utility patents and plant patents.

Inventions can include machines, chemicals, genetic inventions, compositions of matter, processes and articles of manufacture of various kinds. Asexually reproducing plants are covered by plant patents. Since plant patents have the same general properties of utility patents, the following discussion will be limited to utility patents. The law excludes the patenting of inventions exclusively for nuclear material or atomic weapons.

2. Subject matter (and irrelevance) of design patents.

A second category of patents is design patents, which focus on non-functional ornamentation. These patents only last fourteen years and generally have little value in the marketplace. Copyright can provide protection for aesthetic graphical designs without the expenses of filing and maintaining a patent. Design patents are not usually worth the expense, and their exclusivity is too limited to be the basis of developing a successful business. As a result, they will generally be ignored by the entrepreneur. In fact, the PTO warns that an invention assistance company who suggests a design patent for the entrepreneur may be perpetrating a scam.3 Nonetheless, there are some exceptions, so occasionally a qualified attorney may find a design patent appropriate for a particular design and a unique competitive environment.

3. An invention must be new.

The initial limitation of patentability under U.S. patent law is that the patent is new. It cannot have been used or publicly disclosed anywhere more than one year prior to filing. One of the reasons for denying a patent is that “the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States,” or “the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent.”4

Every patent issued should be absolutely “new” for the public. For example, when Rollerblades first became popular, the company applied for a patent of its inline skates. A search of the “prior art” – the Patent Office files and relevant literature – resulted in the discovery of a

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nineteenth century patent for inline skates. Although Rollerblade had not relied on the patent, and in all likelihood the patent had long been forgotten, the existence of that old patent was sufficient to prohibit Rollerblade from obtaining a valid patent on its technology. This sets a very high bar for patentability. Fortunately, the statute specifically allows for improvements on inventions to be patented, so modifications of existing products and processes are eligible for patent protection.

In recent years, the categories of new inventions have expanded through PTO practice. In addition to traditional machines, devices, chemicals and software, categories such as genetic material, financial instruments and e-commerce business practices have received patents.

4. **An invention must be useful.**

The second core requirement for patent eligibility is that the patented invention be useful. This requirement precludes any attempt to patent ideas. Instead, any novel idea must be “reduced to practice” or implemented into a working invention. The patent is the end product of the idea, research, design and implementation of the invention.

The device, in its usefulness, must do what the inventor claims it does. The classic example of the unpatentable device is the perpetual motion machine. Since such a machine cannot exist under the laws of physics, any claim to have created a perpetual motion machine will always be rejected.

Useful is not the same as marketable. There are a great many patents which are granted because the inventor achieved his goal in making the device do what the specification said the invention would do – even though no rational consumer would want the device. These “wacky patents” adorn many websites. Some, however, may be less wacky than others. Only the marketplace can determine whether a functional patent is relevant to the public or doomed to adorn a wacky patent website.

5. **An invention must be nonobvious.**

The statute again prescribes those inventions that cannot be patented:

A patent may not be obtained though the invention is not identically disclosed or described … if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.  

The test for nonobvious has been called the most subjective aspect of the patent application because the examiner must determine what a person with some professional experience in the field would consider obvious. Consider, for example, the earlier discussion of Leonardo Da Vinci’s parachute. A person with ordinary skill in the art would know that designers are on a constant quest to replace existing materials with new, stronger and lighter materials. A patent on the use of a new, lightweight material for the parachute cloth might be obvious unless it confers an unexpected advantage and therefore, not patentable. In contrast, if the parachute invention were to use a new

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system of controlled apertures (or holes) in the cloth to steer the parachute, replacing the use of
cords with an electronic aperture system, it is likely that such a system is sufficiently different from
the steering mechanism used in parachutes, sails, or other similar systems to satisfy the nonobvious
requirement.


The patent application is a very technical process. It is far more complex than any other
form of intellectual property protection, requiring a significant amount of technical skill by the
patent agent or patent lawyer. Unlike other forms of intellectual property, the rights provided by a
patent only come into existence if the government issues the patent. The following provides a brief
overview of the language of the patent application process and the key concepts used by those
involved in the patenting process.

1. Application by the inventor.

A patent application must be made by the inventor. The application must include each
inventor on all claims, so careful documentation of the development process must be kept,
particularly if a large number of inventors participate. The process of financing the inventors or
supporting their activities is not the basis for becoming an inventor. Companies acquire their patents
through the work of their employees. The company that employs the inventors to make the
invention may acquire the patent according to a written employment agreement, various aspects of
employment law, or through other contracts. Each of these three methods to transfer patent rights
is discussed below.

2. Reducing the patent to writing – specification and claims.

The invention and its functions must be reduced to writing before the patent application can
be filed. The invention must be explained in sufficient detail so that another person of reasonable
skill in the field can produce the invention from the description in the patent application. The
application includes forms, filing fees, invention specifications, drawings and claims. The
specifications are the written description of the invention. These must detail the “manner and
process of making and using” the invention. The claims set out the legally enforceable rights for the
patent.

The claims define the scope of the protection of the patent. Whether a patent will be
granted is determined, in large measure, by the choice of wording of the claims. . . .
One or more claims may be presented in dependent form, referring back to and
further limiting another claim or claims in the same application. All dependent claims
should be grouped together with the claim or claims to which they refer to the extent
practicable. . . . Each claim should be a single sentence, and where a claim sets forth
a number of elements or steps, each element or step of the claim should be separated
by a line indentation.9

As these instructions make clear, the legal challenge in patent claims drafting is a rather
arcane art of carefully describing complex processes – each in a single sentence. While a patent
application does not have to be filed by an attorney, it is unwise to risk filing an invention without
the aid of anyone other than a patent agent or patent attorney with significant experience in claims

8 USPTO, A Guide to Filing A Non-Provisional (Utility) Patent Application,
9 Id.
Finally, drawings may be used, when helpful, to illustrate the claims and specifications, making clear with pictures what may be too difficult to communicate with words. Again, great care must be taken because “[t]he drawings must show every feature of the invention as specified in the claims.”

3. **Timing and issuance.**

The patent application process presumes an eighteen month cycle of review, but applications often take much longer than this period. The assigned patent examiner reviews the patent application to see that the subject matter is acceptable and that the patent meets the standards of new, useful and nonobvious. If it meets these standards, the patent will be issued, and the patent rights are enforced for twenty years from the date of the completed application (not the date of issuance). In certain situations where the application process has had lengthy delays, the applicant may seek an extension of the twenty-year period to recover some of the protection time lost to the application process.

The application must be filed within one year of the invention or discovery. Great care should be taken regarding the invention’s movement toward commercialization. “No one should disclose or try to commercialize inventions without having discussed the situation with a specialist! U.S. law contains a one-year grace period, but patentability of an invention offered for sale, used or described publicly is immediately lost in most of the world.”

From the earliest stages of the invention, the inventor should create and maintain a notebook. The notebook is used to prove the timeline of the invention. This tool is needed to protect the invention against claims by a second inventor who might be creating the same invention. In a race toward the legal protection of a patent, the timeline in the notebook will show exact moments of the inventions development. Professor Tom Field suggests that “[t]rusted third parties should be asked to witness it periodically and to indicate, in writing, that they have read and understood it.” If a second inventor objects to the issuance of a patent because of his prior work, he can file an interference claim. An interference proceeding would then determine which of the two parties claiming the invention was first to conceive of the invention and reduce it to practice. While these types of claims are rare, the notebook and other forms of documentation that record the inventive process are essential to protect the inventors. These documents help determine which inventor is actually entitled to the patent.

Outside the United States, most countries award the right to obtain the patent on the party who is first to file the patent application rather than to the party first to create the invention. This eliminates the interference proceeding but engenders a race to the patent office which the U.S. has been able to avoid thus far.

4. **Filing a provisional patent application.**

The inventor’s notebook and the race to the filing office have been largely supplanted by the relatively recent adoption of a provisional patent application process. Since 1995, inventors have been provided the opportunity to file a patent on an invention or process being developed. An

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10 Id.
12 Id.
inventor who has filed a provisional application must follow-up by filing a non-provisional application within one year of the initial provisional filing. The provisional application extends the legal protection for the patent and helps the inventor know that the invention will receive protection. The PTO suggests that the inventor benefits from the provisional patent application in three ways:

Under the provisions of 35 U.S.C. § 119(e), the corresponding non-provisional application would benefit in three ways: (1) patentability would be evaluated as though filed on the earlier provisional application filing date, (2) the resulting publication or patent would be treated as a reference under 35 U.S.C. § 102(e) as of the earlier provisional application filing date, and (3) the twenty-year patent term would be measured from the later non-provisional application filing date. Thus, domestic applicants are placed on equal footing with foreign applicants with respect to the patent term.14

The provisional patent application provides an inventor an alternative to the rush to the filing office. In order to take advantage of the provisional application, the inventor must be fairly close to completing the work on one of the ultimate claims, however, because “the written description and any drawing(s) of the provisional application must adequately support the subject matter claimed in the later-filed non-provisional application….”15 If the description and drawings do not support the non-provisional claims, the benefits of the provisional application will be lost. Some latitude exists, however, because the drawings and descriptions need not be identical, just of sufficient subject matter.

The effect of the provisional application is to align U.S. practice with the method of filing patents elsewhere in the world. In most countries, a patent application may be made before making any disclosure or commercial use of patents. The provisional application process allows for both processes to occur in the U.S. with some slight advantages to the provisional filing method. It also allows the applicant to begin using the “Patent Pending” designation on the item.

**Sidebar - Patent economics.**

Patent economics are a heavily debated topic among business leaders and intellectual property academics. A widespread consensus has developed that patents are issued too readily by the PTO, and as a result, there is a great uncertainty regarding the validity of patents when they are challenged in court. Patent litigation is very expensive, and risk-averse companies struggle to balance the need to defend their own patents, challenge the validity of other patents and manage the costs of the patent management.

Presently, legislation is pending in Congress to improve the situation by tightening some of the laws regarding the issuance of patents and enhancing the staffing of the PTO to provide more staff for patent reviews.

Patent critics have also focused on the monopoly power granted by patents. While in some industries, the non-patented alternative is acceptable, in areas such as medicine, there is no reasonable substitute for a life-saving drug. The patent provides the manufacturers with a guaranteed twenty-year period in which to amortize the development costs of these drugs – a cost which can be quite high. The monopoly also condemns the public to a twenty-year wait before less expensive alternatives can legally be sold in the market.

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15 Id.
A very successful patent for a new medication may have no reasonable market alternative. Put another way, the consumer cannot turn to another product as a substitute. The pricing is also outside of any market system because of health care regulations, federal laws and other anomalies in the medical delivery system.

Whatever the other problems associated with health care costs may be, to the extent that the costs of the drug’s development costs are amortized during the patent term, the shorter the term, then the higher the drug expense. This suggests that shortening the patent term would only increase the cost of the drugs, but this may over-simplify the problem. The only limit on price of a life-saving drug is the ability or willingness of the customer to pay. If no comparable drug is available, it is unlikely that market forces will lower the price. Instead, the bargaining power of the insurance companies, the drug company’s discomfort at accusations of price gouging and the fear of government intervention will control the drug’s price. The price of pharmaceuticals is not limited by normal market forces. The pathology of pharmaceutical pricing may help explain how patent economics should work.

Pharmaceutical pricing is unlike the pricing for most patented machines or processes. A patented car safety device, such as Volvo’s safety features, increases the cost of the car. Some customers are willing to pay for the marginal increase in safety – meaning the incremental increase in safety – afforded by the patented devices. Other drivers do not value the safety benefit as sufficiently great (or alternatively, do not value the risk of injury as sufficiently large) to justify the increased price. Other drivers, of course, might value the safety benefit, but do not have the money to make such a choice.

Airbags were an extremely popular form of passive restraint in cars, allowing those manufacturers that first adopted airbag technology to command a large price premium for those cars. Sliding seat belts were a competing form of passive restraint, but it was a technology not appreciated by most drivers. Consumer demand made airbags a standard feature on most cars, eliminating the premium which could be charged. As the premium price for airbags disappeared and the patented technology became widely available, the feature evolved into a standard item on all cars and competing passive restraint systems were dropped by all car manufacturers.

The airbag adoption illustrates the final aspect of patent economics. As a patent license becomes generally available to all competing manufacturers, the premium price for those products with the patented technology diminishes. There remains some price premium because the patented product is enhanced in some manner in comparison to similar products without the patent enhancements. But there is no competitive advantage between manufacturers, which is the source of the greater price premium.

For the patent owner, the choice is to have more units sold or to have a higher price paid for fewer units sold. The optimal licensing plan will depend on the size of the market and the size of the price premium. Because there are also significant costs associated with the adoption of new technology, it is common that the early licensees will insist on exclusivity as a condition of making the initial investments.

D. Acquiring Patents.

Patents are a form of property, and like land, a patent can be bought, sold, inherited, mortgaged and sold in a bankruptcy auction. Patents are initially acquired through the inventor’s filing with the patent office, but once the patent is granted it can be acquired by others through some other legal transaction. Employers typically receive the patents of their employees by operation of employment law, while other transfers involve contracts, licenses, or legal transfers of ownership. Licenses are the most significant forms of ownership acquisition and transfer for the entrepreneur and start-up business.
1. **Invention.**

The most obvious source of patent ownership is through the patent application process described in the preceding section. For the person who is both the entrepreneur and the inventor, the primary source of the patent is through one’s own intellectual efforts and application of industry. All patents flow from some person or persons’ intellectual efforts and industry, and every patent can be traced back to its inventor.

2. **Hired to invent, shop rights doctrine and employment agreements.**

While all patents require inventions, not all patents are the progeny of the inventor. In the more common situation, the inventor applies his effort to solve a problem identified by his employer, making the idea into a practical invention or to “reduce to practice” an idea proposed by the employer or other person.

As a general matter, when an inventor or engineer patents an invention as part of her employment, the patent is owned by the company. Known as the “hired to invent” doctrine, the patent is considered the work product of the inventor, made on behalf of the employer. Under employment law, the hired inventor’s work product belongs to the employer as part of the employee’s duty of loyalty to the employer. The “work-for-hire doctrine” is analogous and provides the same result in copyright law.

Patent law has a subsidiary doctrine, known as the “shop rights” doctrine, for those situations in which the employee uses the equipment and facilities of his employer outside of the regular scope of the employee’s employment. In this situation, the employee has the ownership of the patent, but the company has the free use of the patent as a form of repayment for its resources. Many great inventions arose by clever engineers and scientists who used the facilities of their employees after hours on projects unrelated to the employer’s business. The shop rights doctrine provided an incentive to both employer and scientist to continue the pursuit of new knowledge and industry.

These legal doctrines are applied where there is no contractual agreement between the employer and employee. Good business planning requires that specific ownership of employee-developed patents and other intellectual property be detailed in the employment agreements and personnel handbooks. The economic difference between patents developed by employees who are hired to invent and those patents that are granted to the company based on the “shop rights” doctrine could be worth millions of dollars and should not be left to chance.

For an entrepreneur who hires an engineer or other expert to develop and patent the entrepreneur’s original idea, the need for a signed contract specifying the ownership of the patent and the payment obligations is critical. In such a situation, no traditional employment relationship exists. Thus, a contract is needed to specify that the idea, which should be subject to nondisclosure by the parties, originated with the entrepreneur. Additionally, the contract should include a funding plan for the engineer to develop the invention and reduce the idea to practice. The engineer would be paid for her work, either as a commissioned amount, a salary, or a portion of the future royalties generated by the patent. The engineer would be the inventor for purposes of the patent, but the contract would transfer the ownership of the patent to the entrepreneur.

While the contract could have provisions to account for many more contingencies, the nondisclosure provisions, patent ownership clauses, and compensation terms provide the core essence of these types of agreements. The “idea” would have to be respected as a trade secret by the
parties. Without this contract, the rights of both the entrepreneur and the engineer would be ambiguous and likely to result in significant disputes. Even the risk of such disputes would drive away most funding opportunities for the start-up business.

3. **Acquisition through purchase or licensing.**

The employment agreement is just one example of a purchase agreement, uniquely tied to the performance of the inventor. The company can also acquire the patent through a purchase or license agreement, which grants to the company either the patent or some rights to use the invention.

It may be helpful to label the purchase of the patent as a transaction in which the entire patent property ownership transfers from the first party to the second party. This transfer could be from the inventor to a manufacturer or from one manufacturer to another manufacturer. A license, in contrast, is the purchase of the right to use some aspect of the patent, but the original owner still retains some rights to the patent and remains the patent owner.

Although not technically correct, the entrepreneur may find it helpful to contrast the purchase of the entire patent with the license of various uses of a patent in planning for the business. As with all other property, the purchase cost of a patent is dependent on the scope of ownership acquired. An entrepreneur may not need to purchase everything in order to achieve the business goals, so choices regarding licenses should be made with both budgets and competition in mind.

4. **Exclusivity in licensing.**

In the licensing example, the license may be exclusive or non-exclusive. A non-exclusive license provides the party receiving the license (the licensee) with the permission needed to use the patent, but it does not stop the party licensing the patent (the licensor) from giving the same permission to multiple parties. An exclusive license grants permission to use the patent to only one party. The scope of the exclusive license, however, can vary dramatically. Often exclusive licenses are restricted by geography, time and type of usage.

For example, assume an inventor creates a newly patented voice recognition device. The software algorithms are sufficient to satisfy the patent requirements that the software is both new and nonobvious. The inventor sells the patent to MicroVoice, Inc., a software manufacturer, in exchange for a payment and royalty. MicroVoice purchased the software in order to use it with its own operating software. That transaction is a sale. While MicroVoice will have a duty to track the sales of the product and pay the royalty to the inventor, all other ownership decisions and control over the patent are now held by MicroVoice.

The following year, MicroVoice is approached by Cuddly Toys, Inc. to use the software in its plush toys. The teddy bears and other Cuddly Toys products listen to their owners, responding to identified words with appropriate pre-recorded responses. Cuddly Toys acquires licenses to use of the MicroVoice software for its toys. Because Cuddly Toys does not wish to compete with any other toy companies for this special kind of toy, it seeks an exclusive license from MicroVoice.

Exclusivity is not all-or-nothing. Instead, exclusivity is carefully defined for each transaction. Absent any other consideration, the greater the amount of exclusivity, the greater the cost of the license. Cuddly Toys wants sufficient exclusivity to eliminate competition, but still desires to keep the cost of the license manageable. Cuddly Toys should not pay for exclusive rights it does not hope to use. As a result, the negotiated license agreement may provide that Cuddly Toys will have the
exclusive right to use the patented software in plush toys for a period of five years. MicroVoice could then license the patent to Mattel for use in a new line of Hot Wheel toy car garages and Barbie salons. If Cuddly Toys did not want this type of competition, then it would have to purchase the exclusive license to cover all toys rather than merely plush toys. The length of the initial license will also affect the annual cost of the license, with longer licenses generally costing less per year.

5. Other transfers.

As a form of property, patents are subject to other forms of transfers, just like real estate. A patent can serve as collateral for a loan, and if the loan is foreclosed, then the patent can be foreclosed upon and sold to pay the debt. Similarly, if an inventor or other natural person dies owning a patent, that patent will be part of the estate and transferred by will or by law. The patent rights may be a significant asset for collateral in bank loans or other financing opportunities.

For the start-up business, some care should be taken regarding any agreements that may involve the use of the patents as collateral. Similarly, due care must be exercised to assign the patents to the business rather than leaving those assets in the hands of the business founders. Otherwise, if the founder dies, the company ownership and the patent may be distributed separately depending on the terms of the inventor’s will, potentially destroying the value of either or both assets.


The process of protecting one’s patent rights is as complex as the process of obtaining a new patent. This brief overview provided below understates the time consuming, expensive and highly unpredictable process of identifying infringement and bringing legal action to recover damages.

1. Identifying infringing conduct.

A patent protects the patent owner from any sale, commercial use, or importation of an item that has the same attributes that are specified in the patent claims. The owner of a patent can stop any third party from selling the identical product even if it was invented independently, without any knowledge of the existing patent.

In addition to identical inventions, patent law provides protection from inventions that are designed around the patent. Known as the doctrine of equivalents, this rule provides that “if two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same, even though they differ in name, form or shape.”16 The doctrine of equivalents expands protection from literal infringement to a somewhat broader category of activities, enriching the value in the patent.

2. Contacting the infringer.

Once an infringing product has been identified, the next step is generally to contact the infringing party and attempt to arrange an agreement without a lawsuit. A “cease and desist” letter is generally sent by the patent owner’s lawyer, explaining that the invention is patented by another party and demanding that the unauthorized use stop, or that the use become authorized through a licensing arrangement. If the patent owner has already provided an exclusive license to another party, the patent owner may have no choice but to sue to stop the infringement.

The alleged infringer may respond by negotiating with the patent owner or it may challenge the claim. Generally the challenge will take two forms. The alleged infringer will claim that the

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3. **The litigation process.**

Either party may file a lawsuit regarding the dispute. Patent litigation is heard in federal district courts, and either party may request that the case is presented to a jury. Like other trials, a great deal of time and effort is spent in discovery, reviewing documents and evidence collected from the other party, asking written questions, taking depositions or oral testimony and gathering experts to testify. The complexity of patent claims creates complexity in the discovery process of reviewing corporate documents and relevant potential evidence.

After the parties have engaged in a substantial part of the discovery process, the federal court will hold what is known as a *Markman* hearing at which the federal judge or magistrate will determine how to interpret or construct the patent claims. The claim construction is not subject to jury decision, and this hearing can often determine the outcome of the dispute.

The judge or jury will then need to determine whether the patent is valid, and if it is valid, whether the use by the defendant violated the rights of the plaintiff. Since the PTO issued the patent, it is presumed to be valid. The defendant, however, can overcome this presumption with clear and convincing evidence. In recent years, many analysts have criticized the PTO for quickly issuing questionable patents. The consequence of this criticism has been an increased willingness by courts to find that the presumption of validity has been overcome, and the patents before the court are invalid.

4. **Recovery and damages.**

If the plaintiff is successful in proving infringement, then the court typically enjoins the defendant from continuing to infringe the patent. While the Supreme Court recently ruled that injunctions are not automatic, in most cases, the courts will continue to protect the patent owner with an injunction barring continued use of the patent. In addition, the plaintiff is typically entitled to a recovery based upon some calculation of what the reasonable royalty would have been for the patent had it been licensed, or for the lost profits the patent owner would have made if the infringement had not occurred. Lost profits are generally the larger amount, but they are also difficult to determine and prove. In order to recover lost profits, the patent owner must show that it could have manufactured the products itself, establish what net profits it would have made on that manufacturing, and demonstrate that there was no adequate substitute for its products to reduce the value of the claimed net profits. If the plaintiff can show that it is entitled to the profits rather than merely the royalty, it can receive the larger award.

In extraordinary cases, the court may also provide the prevailing party with costs and attorneys’ fees in addition to the injunction relief and the recovery of profits or royalties. Costs and attorneys’ fees are awarded at the discretion of the court and are not automatically available. In situations of willful infringement or misconduct before the PTO, the court is more likely to award attorneys’ fees. In contrast, if the parties were in a legitimate fight over the meaning of a patent claim, it is far less likely that a court would award attorneys’ fees. The attorneys’ fees are available to the prevailing party, whether plaintiff or defendant.

5. **Violating the patent rights of others.**

The infringement of another party’s patent rights may occur in one of three different ways. A company may invent something that is covered by a patent claim previously recognized by the
PTO for another party, a party may utilize the published information of a patent to manufacture its own device before that patent has expired, or a party may import or purchase a product which has been infringed.

A patent is infringed whenever a new invention is identical or equivalent to the issued patent. The patent holder does not have to prove copying, and the infringer cannot claim independent creation as a defense to the infringement. It is this breadth of protection which makes the patent such a formidable right. The innocence of the infringing party may affect damage awards and the award of attorneys' fees, but it will not eliminate the infringement.

Copying the published information from the patent application is a willful infringement. This is patent piracy and will elicit no sympathy from either court or jury.

For most companies, however, the most likely cause of a cease and desist letter will be the use or importation of a patented item that was, itself, unauthorized. For example, assume a company successfully patents a new molecular compound from which a man-made thread is spun. The thread is patented in the U.S. only. After reading the patent, a manufacturer in Brazil begins manufacturing spools of this synthetic thread. The Brazilian manufacturer can lawfully produce the thread because it is not patented in that county and it can lawfully ship the thread into other countries where no patent application was made. A U.S. clothing manufacturer imports the thread for use. Unlike the Brazilian thread manufacturer, the U.S. company importing the thread can be sued for infringement of the patent owner’s exclusive rights in the United States.

Companies must be careful to review the source of goods and technology in their acquisition of source materials so that they do not inadvertently interfere with the patent rights of other companies. In addition, all contracts should contain provisions that guarantee the buyer of the seller’s legitimate intellectual property in the product being sold. These contracts should also include an indemnification clause, which would pass the liability on to the seller in the event that an infringement challenge is made.

Unfortunately, the valuable property interests created by intellectual property rights also complicate the business of manufacturing products. Companies must be very proactive, using intellectual property as a corporate benefit rather than merely a compliance annoyance.

F. The International Implications of Patent Law and Practice.

The internationalization of trade has dramatically increased the importance of international protection of intellectual property. Despite this growing trend, the laws protecting intellectual property operate nationally rather than internationally. This means that the law of each country must be applied to each particular intellectual property. Generally, the legal enforcement of those rights must occur in the courts of the country where the property is recognized.


In the area of patent law, the Patent Cooperation Treaty (PCT) provides a collaborative system for over 125 signatory countries. This treaty is significant because it coordinates the application process. It helps reduce international application delays and simplifies the international process greatly. The United States is an active participant in the PCT, and English is one of the major treaty languages.

The PCT uses a two-step process in which the inventor files an “international” treaty application through one of the major international treaty offices, including the PTO. The PTO explains its expectation regarding the process. “In most instances a national U.S. application is filed
first. An international application for the same subject matter will then be filed subsequently within the priority year provided by the Paris Convention and the priority benefit of the U.S. national application filing date will be claimed.”

2. **Other international filing options.**

The PCT may also be supplemented with other international filings. “The PCT offers an alternative route to filing patent applications directly in the patent offices of those countries which are Contracting States of the PCT. It does not preclude taking advantage of the priority rights and other advantages provided under the Paris Convention and the WTO administered Agreement on Trade-Related Aspects of Intellectual Property (TRIPS Agreement).”

This suggests that the U.S. inventor should file the application with the PTO and determine what advantages may exist to paying the national filing fees of each additional country. For certain inventions, the TRIPS filing process may prove best, while for smaller inventions, the decision not to apply outside the U.S. may be preferred.

3. **Impact of international trade.**

Patent protection remains territorial. A patent is only valid in those countries where the application and maintenance fees have been made. This means that an invention may be patented in some countries but not others. Import companies must be very careful about importing items that are protected by U.S. patents, as well as those licensed in a country that did not grant the patent (or in which no patent was sought). In these situations, the company could be violating its contract by not delivering the exclusivity promised or by infringing the rights of other parties.

The international obligations go well beyond the patent process to inform the manner in which international trade is conducted by the company and how best to target foreign opportunities in a strategic and economic manner. Treaties, tariffs, and trade agreements also affect the decision to market a patented product in each country. International trade is affected by intellectual property rights, but it is a distinct legal field. Particularly for manufactured goods, the role of patents is only a small aspect of the overall practice of international trade.

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18 Id.
Chapter 12. Copyrights and Copyright Law

A. Attributes of Copyright.

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<tr>
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<th>Copyrights</th>
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<tr>
<td><strong>Subject Matter:</strong></td>
<td>“Original works of authorship,” including literary, dramatic, musical,</td>
</tr>
<tr>
<td></td>
<td>artistic and certain other intellectual works.</td>
</tr>
<tr>
<td><strong>Method Acquired:</strong></td>
<td>Automatically acquired upon fixation of the work (paper, disk, computer</td>
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<td></td>
<td>memory, sculpture, etc.).</td>
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<tr>
<td><strong>Term:</strong></td>
<td>Life of the author plus 70 years. Works-for-hire have a term of 95 years</td>
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<td>from publication or 120 years from creation, whichever is shorter.</td>
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<tr>
<td>**Time Needed to</td>
<td>No waiting period. Registration with Copyright Office confers additional</td>
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<tr>
<td>Acquire:**</td>
<td>protections.</td>
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<td><strong>Renewals:</strong></td>
<td>None required for works created beginning 1978; renewal required for</td>
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<td>works published before 1964.</td>
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<tr>
<td>**Federal Government</td>
<td>Copyright Office, a division of the Library of Congress. <a href="http://www.copyright.gov">www.copyright.gov</a></td>
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<tr>
<td>Office and Website:**</td>
<td></td>
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<tr>
<td><strong>Transfer:</strong></td>
<td>Fully transferable, exclusive transfer only in writing signed by transferring</td>
</tr>
<tr>
<td></td>
<td>party. Registration of transfer helpful but not required.</td>
</tr>
<tr>
<td>**Property Excluded</td>
<td>Ideas, procedures, methods, systems, processes, concepts, principles,</td>
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<tr>
<td>from Protection:**</td>
<td>discoveries, or devices, listings of ingredients or contents; and</td>
</tr>
<tr>
<td></td>
<td>Titles, names, short phrases and slogans; typefaces; familiar symbols or</td>
</tr>
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<td></td>
<td>designs.</td>
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</table>

B. Copyright Explained.

Drawing from the statutory rules that make up copyright, the Copyright Office provides this elegant working definition of copyright as

[a] form of protection provided by the laws of the United States for “original works of authorship” including literary, dramatic, musical, architectural, cartographic, choreographic, pantomimic, pictorial, graphic, sculptural, and audiovisual creations. “Copyright” literally means the right to copy, but has come to mean that body of
exclusive rights granted by law to copyright owners for protection of their work. Copyright protection does not extend to any idea, procedure, process, system, title, principle, or discovery. Similarly, names, titles, short phrases, slogans, familiar symbols, mere variations of typographic ornamentation, lettering, coloring, and listings of contents or ingredients are not subject to copyright.¹

This simple introduction captures the key attributes of copyright, providing all the information an entrepreneur needs to understand when copyright applies.

1. **Subject matter of copyright.**

   As described in the definition above, copyright ownership covers, with limited exceptions, “original works of authorship” including literary, dramatic, musical, architectural, cartographic, choreographic, pantomimic, pictorial, graphic, sculptural, and audiovisual creations that are protected by law as soon as the work is “fixed in any tangible medium of expression.”²

   Fixation is merely the requirement that the expression be recorded in some manner. The material can be written, recorded, videotaped, filmed, digitized or otherwise fixed in an entirely new form. Manuscripts, brochures, websites and all writings are fixed on paper or computer memory. A business presentation can be a copyrighted work if the text of the presentation is written out or if the presentation is videotaped. Absent fixation, an oral presentation will not be protected by copyright.

   The originality requirement for copyright is quite modest. The primary aspect of originality is that the work must be the creative product of the author, rather than copied from another source. The ideas need not be new or original. Unoriginal works are those failing to have even a minimal level of creativity. The white page phone book text, consisting of the names and telephone numbers of individuals in a particular geographic location in alphabetical order, allows for no creative interpretation and therefore, is not protected by copyright. Similarly, the Copyright Office suggests “standard calendars, height and weight charts, tape measures and rulers,”³ as examples of works lacking in creative input.

   Like patents, copyrights are treated as property, and may be used to secure loans, transferred by will, or otherwise treated as property by their owners. Copyrights comprise valuable commercial assets of companies and must be cataloged and managed to maximize corporate assets.

2. **Matters not protected by copyright.**

   Copyright and patent laws do not often overlap. The innovations, processes and methods protected by patent are excluded by copyright. The statute specifically provides that “[i]n no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.”⁴ The difference in the law’s scope of protection between patent and copyright is directly related to the ease with which one can obtain a copyright and the difficulty one faces when applying for a patent. Since all an author has to prove for copyright protection is that he said something or created some expression in a fixed form, the law is similarly limited in its protection. The copyright provides the author exclusivity only on the

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expression, with no protection for the work’s underlying ideas.

This inherent limitation of copyright makes copyright the wrong body of law to protect business plans, sensitive data and innovative proposals. Ideas which have been reduced to practice can be protected by patent law, while the confidential and valuable information in the business plans, data and innovation should be treated and protected as trade secrets. Copyright can supplement these systems, but it is secondary.

Copyright is also kept somewhat distinct from trademark because copyright does not extend to “[t]itles, names, short phrases, and slogans; familiar symbols or designs; mere variations of typographic ornamentation, lettering, or coloring; mere listings of ingredients or contents.” Short phrases such as McDonald’s “I’m lovin’ it” will be protected by trademark law because the phrase helps identify the source of goods, but it cannot be protected by copyright.

Some trademarks do have copyright protection. The cartoon drawing of Mickey Mouse is a pictorial work that has also been used as the company’s trademark. Copyright protects the drawing of Mickey Mouse while trademark associates The Walt Disney Company as the source of goods bearing the Mickey Mouse logo. The usage of a drawing as a trademark will not eliminate its copyright protection, but the protection provided by copyright will be quite different than that provided by trademark.

3. **Exclusive rights for the copyright owner.**

The owner of an exclusive right in copyright has the right to reproduce the copyrighted work, publicly display the work, distribute copies of the work, publicly perform the work and prepare derivative works. Only the copyright owner can authorize new copies of the work to be made and sold, authorize public performances using the copyrighted work, or authorize adaptations, translations or other new uses of the work.

Adaptations are known as derivative works. “A ‘derivative work’ is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications, which, as a whole, represent an original work of authorship, is a ‘derivative work.’” Updated versions of software programs are derivative works of the earlier editions of those programs. A translation of a novel or website from one language to another is a derivative work. Creating a plush toy version of Mickey Mouse is a derivative work from the pictorial version. Similarly, each new Mickey Mouse film or television show is a derivative work of the copyright in the Mickey Mouse character.

4. **Transferability and licensing of copyright.**

The exclusive rights of the copyright owner may be sold or licensed to others. Like patents, copyrights are personal property that can be sold or licensed in whole or in part. A sale of a copyright is generally called an assignment, while a transfer of anything less than the entire copyright interest is a license of the copyright.

The key to maximizing the value in a copyrighted work is that the owner of a copyright does

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5 U.S. Copyright Office, Circular 1, *supra* note 3.
6 17 U.S.C. § 106 (2005). In the case of sound recordings, copyright holders also have the exclusive right to perform the work publicly by means of a digital audio transmission. *Id.*
7 *Id.* § 101.
not have to own the entire copyright, but can exclusively own just a portion of the copyright. Copyright licenses generally cover a period of time far less than the term of the copyright. At the end of the license term, the copyright returns to the original copyright owner. Similarly, copyright licenses are often subdivided into very narrow product distribution channels and often divided into geographic areas as well. Further, depending on the terms of the copyright license, these rights may be further subdivided and sublicensed.

For example, assume Sue Smith owns the copyright in her novel, *Smithville*. The copyright vests in Ms. Smith as soon as she saves the text on her computer. The computer’s memory is sufficient to fix the work in a tangible form, a primary requirement for copyright protection.

Ms. Smith will likely mail copies of the unpublished manuscript to potential publishers, inviting those publishers to offer to publish her work. If a publisher desires to publish *Smithville*, it will negotiate for the rights to publish the novel from Smith. Under prevailing business custom, the publisher will not purchase the copyright, but will instead acquire an exclusive right to publish the English language version of the book in the United States and Canada in hard back form. The license is limited to language, geography and physical format. The license may preclude Ms. Smith from offering the paperback or trade paperback rights to any other publisher for a period of time following the publication of the hard back.

In this hypothetical situation, Ms. Smith may elect to allow the book to be distributed in electronic “e-book” format. To reduce competition between the hard back version and the e-book, the contracts may provide that the e-book sales will be held off for a period of time beginning three years after the hard back sales begin. The e-book license may only be for a short period, such as three years. Relatively new media formats are often licensed for shorter periods of time to test the viability of the technology and assess the value of the markets.

If the publisher chose to acquire all English language publication rights in all print media, it could then sublicense the paperback rights to one publisher and the Canadian distribution rights to yet another publisher. There is no limit to the number of slices into which a copyright can be sliced.

Finally, Ms. Smith will separately negotiate various derivative rights in her novel. She may negotiate foreign language translations with different publishers located throughout the world. She will negotiate to allow her novel to be adapted into a motion picture, television show, or audio book with other companies.

In this way, the copyright in the novel can be divided into time-based licenses, geographic licenses, product based licenses and licenses that permit carefully described adaptations. As a negotiating strategy, the parties should only acquire the rights that have economic value to them. Buying rights one does not need adds to the expense, while licensing rights to a party that cannot exploit those rights causes a loss in revenue for the copyright owner. Some publishers want to own all rights, but they should pay a premium for that monopoly position.

**Sidebar – Music copyrights and performing rights organizations.**

The rules for copyright licensing in music are somewhat different than for other entertainment media and copyrighted works. Music is a complex area of copyright protection because there are separate copyrights in the composition (the lyrics and score of the music, and sometimes the arrangement as well) from the sound recording. The composition is generally fixed on sheet music, while the sound recording is fixed on a phonograph record or CD. The sound recording has a very limited public performance right, so that the composer receives most of the copyright protection and
revenue for public performances.\textsuperscript{8}

For business owners, an understanding of the public performance of music is helpful. Many businesses play music in their establishments and are surprised to find that much of the activity requires a public performance license. Public performances include more than live musicians. A public performance may include music piped through a stereo system, or even running a radio station in the establishment that can be heard by the public. Radio and television stations are licensed to broadcast for private use, and any public use of those signals requires an additional license, unless there is an exemption from the requirement.

The primary exemption was the “home style” exemption, which provided that the use of a radio or television similar to that owned by a homeowner could be used in public without any additional licensing. This protected stores from needing a public performance license for having a radio sitting on a counter or a television in the corner.

Since 1998, the Fairness in Music Licensing Act has created an additional exemption to the public performance licensing requirement. While the home style exemption has been retained, the exemption has been expanded for stores of less than 2,000 square feet and restaurants of less than 3,700 square feet. By meeting the equipment restrictions,\textsuperscript{9} no public performance license is needed for radio or television performances.

For all other public performance, including the playing of CDs or live music in any sized venue and the playing of the radio in larger venues or with large stereo systems,\textsuperscript{10} a public performance license is required. Since it is highly impractical to ask every composer for permission to play his or her song, performing rights societies were established to provide a single license to stores and restaurants for the right to play the music within their catalog. There are three performing rights societies: American Society of Composers, Authors and Publishers (ASCAP), Broadcast Music, Inc. (BMI) and the Society of European Stage Authors and Composers, Inc. (SESAC). ASCAP and BMI together represent most publicly performed music in the United States, but each represents different performers, making the need to have both ASCAP and BMI licenses quite common. The license fees are generally based on the size of the business and its annual revenue.

Because of antitrust violations involving ASCAP and BMI dating back to the 1940’s, the organizations’ pricing structures are supervised by a New York Federal District Court. This supervision was put in place to protect businesses from coercion and to force the performing rights societies to defend the fairness of their pricing when faced with a legal challenge. The performing rights societies are extremely aggressive in suing those companies which fail to purchase a license, with the litigation expenses and court awards far exceeding any savings made by venues which

\textsuperscript{8} See 17 U.S.C. § 106(6) which provides that “in the case of sound recordings, [an exclusive right exists] to perform the copyrighted work publicly by means of a digital audio transmission.” Section 114(d) provides an extensive definition of rules that cover when the digital audio transmission is an exclusive right of the sound recording copyright holder and when it cannot be enforced. Broadly speaking, the digital audio recording exclusivity gives the sound recording copyright holder rights to control interactive broadcasts on the Internet and some limited rights regarding the use of Internet streaming or Internet radio. The specific rules are beyond the scope of this text.

\textsuperscript{9} The restriction on home style stereo systems under the square foot restrictions are as follows:

(I) If the performance is by audio means only, the performance is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space; or

(II) If the performance or display is by audiovisual means, any visual portion of the performance or display is communicated by means of a total of not more than 4 audiovisual devices, of which not more than 1 audiovisual device is located in any 1 room, and no such audiovisual device has a diagonal screen size greater than 55 inches, and any audio portion of the performance or display is communicated by means of a total of not more than 6 loudspeakers, of which not more than 4 loudspeakers are located in any 1 room or adjoining outdoor space.…

\textsuperscript{10} Id. § 110(5).
ducked their licensing obligations.

Most bars and restaurants display stickers on their doors showing that the establishment is licensed by ASCAP, BMI or both. Larger stores will either license through performing rights societies or purchase music specially tailored to the store’s needs by background music services. These background music services license the music either through the performing rights societies or directly with the copyright holders.

5. The term of the U.S. copyright and the public domain.

Copyrights in works created after January 1, 1978 last for 70 years after the author’s death. If the author is a corporation or the work was made by an employee on a work-for-hire basis, the copyright lasts 95 years from publication or 120 years from creation, whichever is shorter. For works created prior to 1978, the length of the copyright protection depends less on the lifespan of the author and more on the date of publication. Nonetheless, the maximum length of copyright for works published before 1978 is 95 years from the year of first publication.

A work created before 1978 was also required to have its copyright renewed in its 28th year of copyright protection. Prior to 1964, the failure to renew the copyright resulted in the loss of copyright protection, leaving the work to the public domain and outside the scope of copyright protection. After 1964, the renewal was provided automatically by law. Because Congress has increased the length of copyright protection from time to time, there is no uniform length of copyright. Appendix A.2, Copyright Timeline for Duration, Renewal & Termination, provides a helpful chart on copyright schedules.

The length of copyright protection for each work must be carefully reviewed based on the date of publication, renewals, the nature of the authorship (by an individual, as a joint work by multiple authors, or as a work-for-hire) and the required formalities in effect at the time of publication. There is no automatic rule. Instead, a company wishing to acquire a license in a copyrighted work must review that work’s copyright history.

The length and nature of copyright protection may also vary by country. There is no international standard for copyright terms or registration, so if the work will be exploited in another country, the copyright owner should review that country’s copyright laws. Despite the large variations, however, international treaties make it very likely that a work copyrighted in one country will be protected in most other countries.

Copyright Term: Special Points to Remember

- **Works Published or Copyrighted Before January 1, 1964:** Works published with notice of copyright or registered in unpublished form prior to January 1, 1964, had to be renewed during the 28th year of their first term of copyright to maintain protection for a full 95-year term.

- **Works Originally Copyrighted Between January 1, 1964, and December 31, 1977:** These works are protected by copyright for the 28-year original term and the 67-year renewal term, without the need of a first term or a renewal registration.

- **Copyrights in their Second Term on January 1, 1978:** These works were automatically extended up to a maximum of 95 years, without the need for
further renewal.

- **Works Already in the Public Domain:** These works cannot be protected under the 1976 law or under the amendments of 1992 and 1998. The Act provides no procedure for restoring protection for works in which copyright has been lost for any reason.¹¹

## 6. Fair use.

Fair use provides the largest exception to the exclusive rights of a copyright holder. Fair use permits the reproduction, distribution, public performance or other use of a copyrighted work without the owner's permission. The law provides that “the fair use of a copyrighted work … for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright.”¹² Comment, criticism, and classroom use comprise the core applications for fair use, but the range of fair use applications is much broader:

The 1961 Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law cites examples of activities that courts have regarded as fair use: “quotation of excerpts in a review or criticism for purposes of illustration or comment; quotation of short passages in a scholarly or technical work, for illustration or clarification of the author's observations; use in a parody of some of the content of the work parodied; summary of an address or article, with brief quotations, in a news report; reproduction by a library of a portion of a work to replace part of a damaged copy; reproduction by a teacher or student of a small part of a work to illustrate a lesson; reproduction of a work in legislative or judicial proceedings or reports; incidental and fortuitous reproduction, in a newsreel or broadcast, of a work located in the scene of an event being reported.”¹³

The primary difficulty in applying fair use is that the test for whether any particular use will be deemed a fair use is highly fact specific. In updating the Copyright Act in 1976, Congress added four factors to the historical explanation of fair use to help clarify the standard:

1. the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
2. the nature of the copyrighted work;
3. the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
4. the effect of the use upon the potential market for or value of the copyrighted work.¹⁴

Generally, the last factor becomes the most critical in a lawsuit over the fair use of copyrighted material. If the new work tends to replace the existing work in the marketplace or

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creates the kind of work that the copyright owner would have created for that market, then the work will be infringing. On the other hand, if the work does not serve as a substitute for the copyrighted work, then it will be less likely to be an infringement. For example, a book review cannot generally replace the book which has been reviewed. In contrast, an abridgement of the book will replace the market for that book.

For businesses wishing to utilize the copyrighted materials of other copyright owners, they must take great care, especially if fair use is going to be the primary defense to copying. Earlier in this book, for example, a copy of the Newman’s Own brand was reproduced without the permission of the copyright owner. Given the use of the drawing in this book, the stronger legal claim would be for copyright infringement of the drawing rather than trademark infringement for use of the trademark in association with this text. Trademark has a similar fair use concept, discussed further in Chapter 15.

Using the four factors listed in the law, it is likely that a court would find this book’s use of the copyrighted drawing a fair use. Admittedly, looking at the first factor, this book’s use of the Newman’s Own drawing is of a commercial nature because this book is sold for profit. Courts look past this aspect of commercial use, however, to determine whether the usage is transformative of the copied work or merely duplicative of that work. The educational nature in this situation is significant. The use of the picture is not incidental to the book, but rather an important tool in a lesson on the nature of fair use. This book uses the image in a manner fundamentally different from the way the copyright owner uses it, so it should be deemed sufficiently transformative.

The nature of the copyrighted work is a business logo, and so the need to protect the expressive or creative work of the author or artist is less than if the drawing had been an artistic depiction. Generally, this factor protects fictional works more than fact-based works. Here, however, the reproduction of the Newman’s Own logo is being used in a factual manner.

The amount of the copyrighted work taken is the entire work – the drawing as a whole. This tends to hurt any finding of fair use. This third factor would lean a court against a finding of fair use, but for a small work such as a logo, it may be less significant.

The most important aspect of the fair use claim is the effect on the market. Here, the effect upon the potential market or value of the logo is negligible. The book has neither a negative effect on the copyright nor changes its usage. While authors who rely on fair use to take the copyrighted material of others like to suggest that their use of the material actually helps the copyright owner, courts rarely give that argument much weight. A court would prefer the book publisher had asked permission rather than merely claimed it had done a favor for Mr. Newman.

Not all factors of the fair use test support this book’s use of the Newman’s Own logo, but the negligible financial impact of the usage combined with the transformative use for comment and criticism, should support the conclusion that the use is a fair one. Nonetheless, there is a certain degree of risk associated with a reliance on fair use. A publisher does not know that the copyright owner will not object to the unauthorized use. A challenge to the use will result in legal costs and the risk of a lawsuit. For this reason, publishers are reluctant to rely on fair use and companies ought to be particularly cautious in relying on fair use for commercial activities.
C. Acquiring Copyrights.

1. **Authorship and joint authors.**

Copyright law assumes that the author of a work is the copyright owner. For novelists, painters and composers, this assumption works quite well. The economic realities are somewhat different, however, for software companies, motion picture makers, and the creators of technical journals or product manuals. For modern industry, it is less likely that a work will be created by an individual author and more likely that a work will be developed by a team of professionals in the scope of their professional endeavors. Corporate employees may be located across the globe, creating interrelated components of a single copyrighted work. Business contracts for copyright must take these conditions into account.

Current copyright law grants protection for the lifespan of the author plus 70 years, so the identity of the author is critical in determining the term of the copyright. If the work is anonymous or pseudonymous, then the term becomes the shorter of 95 years from first publication or 120 years from creation. If the author is later identified in Copyright Office records, the fixed term is replaced with the life-plus-seventy period.

Joint authors receive the benefit of copyright protection for seventy years following the last surviving author. A work by more than one author is described by the statute as a “joint work.” A “joint work” is a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.\(^{15}\)

The key to joint authorship is the agreement between the authors, at the time the work is created, to merge their efforts into one work. Although the law does not require a signed, written agreement, such an agreement would eliminate most related controversies. In addition, some courts require that each participant provide some copyrightable expression in the work, not just ideas. This requires the authors to actually write the dialog or narration as a team, precluding the writing team in which one participant provides the ideas while the other provides the entire dialog or narration. Other courts have rejected this rule because it could bring about the absurd result that the work was protected by copyright even though each author’s contribution was insufficient to be protected. Since the threshold for copyright protection is rather low, the expression requirement is usually not too difficult to achieve. Nonetheless, each joint author should provide some expression so that any authorship ambiguity is eliminated.

2. **Authorship as works-made-for-hire.**

Most often, a work is not created by one or even two authors, but instead by a multitude of authors. Corporate brochures include text drafted by a copywriter working in conjunction with other staff members, graphic designers, photographers and others. Most business works are created by works-made-for-hire, which vests the copyright in the employer rather than the employee.

U.S. copyright law provides two very distinct rules for work-made-for-hire (or work-for-hire). One rule regulates regular employees and the second deals with specially commissioned works. The application of the two rules does not overlap, and each should be analyzed separately.

Under the regular employee rules for work-for-hire, the copyright in a work vests in the employer when the copyrighted work is “prepared by an employee within the scope of his or her employment.”\(^{16}\) The law of agency applies to determine when a person is considered an employee.

\(^{15}\) *Id.* § 101.

\(^{16}\) *Id.*
The factor carrying the greatest weight in this determination is the characterization of employment made by the employer. However, this factor is not dispositive. If an employer provides employment benefits, contributes the employer’s portion of taxes and withholds the employee’s portion of income taxes, the hired individual will likely be found to be an employee. In addition, the employer’s control of both the work and the employee will support the agency claim of employment. These areas of control may include controlling how the work is done, where the work is done, the schedule of work and the ability to add new projects or obligations to the work.

In addition, the work must be part of the employee’s regular employment. The company will own the copyright in works created by a salaried employee, like marketing materials, technical manuals, software and the corporate website. Employers generally do not own the copyrighted works made by their employees outside of the scope of their employment. For example, if an employee works on a novel over her lunch hour every day for years, that novel will not be owned by the employer, unless the employee were employed as a novelist. Similarly, if a boiler mechanic creates a statue for his employer’s building lobby, that statue would be beyond the scope of the mechanic’s employment and the copyright owned by the mechanic, not the employer. The work-for-hire employment presumption can be modified by contract, so the employer can change the agreement with the employee to adjust the copyright ownership.

The second category of works made for hire applies to those works which are specially commissioned. For such works, the status of the employee is not relevant. Instead, the work must fall into one of nine categories enumerated under the law and be transferred to the employer in a writing signed by both parties.

The nine categories of work that are eligible to use contracts for specially commissioned works are those used “as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas…”

When a work is specially commissioned, the copyright vests in the employer or purchaser rather than in the employees or independent contractors. Motion pictures are prime examples of the need for specially commissioned works because the screenwriter, director, set designer,

17 To better understand the nine categories of specially commissioned works, the statute and definitions provide additional information:

[A] “supplementary work” is a work prepared for a publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes; and an “instructional text” is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

A “collective work” is a work, such as a periodical issue, anthology, or encyclopedia, in which a number of contributions, constituting separate and independent works in themselves, are assembled into a collective whole.

A “compilation” is a work formed by the collection and assembling of preexisting materials or of data that are selected, coordinated, or arranged in such a way that the resulting work as a whole constitutes an original work of authorship. The term “compilation” includes collective works.

“Audiovisual works” are works that consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films or tapes, in which the works are embodied.

Id.

cinematographer and even the actors might otherwise be contributing copyrighted material to the final product. The motion picture company hires parties using contracts that specify that the work is done as a specially commissioned work, so that the copyright in the movie and all elements of the movie vest exclusively in the company.

Work-for-hire is not universally recognized, so it is prudent to include a clause in the specially commissioned work agreement that states, “to the extent the transfer is not recognized by law, the employee hereby assigns any copyright ownership to the employer.”

3. Termination and renewal.

The key difference between owning the copyright and purchasing the copyright are the length of the copyright term and the rights an author has to terminate transfers in the copyright. Throughout the history of copyright, the transfer of copyright ownership has had two different terms, allowing the copyright owner two different periods of copyright ownership rather than one continuous period of ownership. Because this approach does not apply to works-made-for-hire, corporations have much greater copyright ownership if the copyright vests in the corporation as a work-for-hire rather than through a transfer or assignment.

For copyrighted works created by an author or joint authors, copyright law provides two different mechanisms for the two-term copyright. Works created before January 1, 1978 had a renewal term for the second estate. Works created under the modern law, beginning January 1, 1978, include a termination provision regarding the transfer of any copyright interests.

For works created under the modern law, all transfers – including any “exclusive or nonexclusive grant of a transfer or license of copyright or of any right under a copyright … otherwise than by will, is subject to termination….”18 The termination must be made by the original author, or the heirs of the author if the author is no longer living.

The termination takes place 36 to 41 years following the date of the grant, depending on when the copyright author initiates the termination.19 The owner of the grant must have at least two years notice, and certain aspects of the rights transferred are not terminated. Most importantly, no earlier agreement not to exercise the termination can be enforced. A business acquiring copyright interests must be cautious because the rights can be shortened to 36 years. If the business is acquiring rights from another grantee, then the company must carefully check the potential that the rights acquired might be much shorter than 95 years because of termination provisions.

For works created under the 1909 Copyright Act, the copyright owner was required to renew the copyright in each published work in its 28th year or else the copyright would fall into the public domain. Under the 1909 Act, the law assumed that only valuable works would be renewed and all other works would be allowed to fall into the public domain after 28 years. As a result, many movies, films, books and a tremendous amount of corporate documents created under this law are now in the public domain. The 1976 Copyright Act eliminated the need to register copyright renewals for all new works, effective January 1, 1978. A 1992 law further protected the copyrights for those works which required renewals, by making renewals automatic for all works first published and copyrighted

18 Id. § 203(a).
19 The statute specifies the termination period as follows:
Termination of the grant may be effected at any time during a period of five years beginning at the end of thirty-five years from the date of execution of the grant; or, if the grant covers the right of publica tion of the work, the period begins at the end of thirty-five years from the date of publication of the work under the grant or at the end of forty years from the date of execution of the grant, whichever term ends earlier.
Id. § 203(a)(3).
between January 1, 1964, and December 31, 1977.

Because of the timing of the changes in the laws, there are no longer any copyrighted works that must be registered. All works were either renewed or have fallen into the public domain. U.S. Copyright Office Circular 15 provides detailed explanations of the effect of renewals. Unlike terminations, the obligation to transfer the renewal term to the licensee of a copyright was enforceable against the copyright owner. An oddity in the application of the law, however, limited the enforcement to the author but not the heirs of the author, so a widow of an author could take the renewal term without the obligation that the author would have had, if the author was living.

Finally, in 1998, all copyrights still in force were extended by an additional twenty years. For the authors of those works that had not been otherwise terminated, the twenty-year period creates a new termination period for use by author or the author’s heirs. This provision has been something of a surprise to companies that thought they were the beneficiaries of the latest twenty-year extension.

The laws and intricacies of both terminations and renewals are very technical. For a business relying on the acquisition of copyrights – particularly copyrights for works in their third decade – the company should be certain that the ownership in the copyright is consistent with the terms of the copyright licenses or transfers.

4. Transfer, notice, registration and deposit.

When a copyright owner grants exclusive rights to another to use the copyrighted work, the assignment must be in writing, dated and signed. Non-exclusive permission may be granted either orally or in writing. Copyright transfers of published works can be filed with the U.S. Copyright Office. Unpublished works must first be registered to have the transfer filed. Transfers and mortgages may also be filed in the locality where the work exists particularly if the work is unpublished or incomplete, so for ongoing software development and other similar activities, filing with both the locality and the Copyright Office is preferable.

Since March 1, 1989, U.S. law has not formally required an author to register the work with the Copyright Office or identify the work as copyrighted. Works published before that date had to comply with the law in effect at the time of publication. Copyright notice is still commonly used, and works that continue to meet both the notice and registration provisions are granted additional legal protections, discussed below. As explained in Copyright Circular 3, copyright notice takes the following form:

1. The symbol © (the letter C in a circle), or the word “Copyright,” or the abbreviation “Copr.”; and
2. The year of first publication. If the work is a derivative work or a compilation incorporating previously published material, the year date of first publication of the derivative work or compilation is sufficient. Examples of derivative works are translations or dramatizations; an example of a compilation is an anthology. The year may be omitted when a pictorial, graphic, or sculptural work, with accompanying textual matter, if any, is reproduced in or on greeting cards, postcards, stationery, jewelry, dolls, toys, or useful articles; and

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3. The name of the owner of copyright in the work, or an abbreviation by which the name can be recognized, or a generally known alternative designation of the owner.

Example: © 2004 Jane Doe

The notice typically appears on the title page of books, front or back of publications, on the contributions page of anthologies, or in any other position that gives reasonable notice of the copyright. Unpublished works have never needed notice.

Registration with the copyright office is also no longer required upon publication. Registration with appropriate notice, however, provides certain benefits. First, registration is necessary if the copyright owner is ever going to defend the copyright in litigation. Second, registration of a work published with proper notice within three months of publication will enable the owner of the copyright to seek statutory damages, rather than having to calculate the actual damages, if the copyright is infringed. Registration with proper notice will also allow the prevailing party in a copyright lawsuit to seek attorneys’ fees for the cost of the litigation. As a result, it is always a good idea to include proper copyright notice and register the work with the copyright office within three months of publication.

In addition, the law continues to require that two copies of the published work be provided to the Copyright Office for the use of the Library of Congress. This is no longer a prerequisite to obtaining copyright protection, but it remains a form of tax on authors and artists of published works which has resulted in the Library of Congress boasting the largest collection of works ever amassed in human history. Failure to participate can result in substantial fines.

D. Enforcement of Copyright Rights.

1. Prima facie case for copyright.

To win a copyright action against an infringer of one’s copyright, the copyright owner must be able to establish that she owns an exclusive interest in a valid copyright. For U.S. copyright owners, they must also show they have registered the copyrighted work prior to filing the lawsuit.

The copyright owner’s legal claim is quite simple. She must establish that the copyrighted work was copied, meaning that the alleged copier had access to the copyrighted work and an ordinary observer would believe that the copier’s work was substantially similar to the copyright owner’s work. Copyright specialist David Nimmer describes this quote from *Harold Lloyd Corp. v. Witwer* (65 F.2d 1 (9th Cir. 1933)) as the “traditional” test:

The question really involved in such comparison is to ascertain the effect of the alleged infringing play upon the public, that is, upon the average reasonable man. If an ordinary person who has recently read the story sits through the presentation of the picture, if there had been literary piracy of the story, he should detect that fact without any aid or suggestion or critical analysis by others. The reaction of the public to the matter should be spontaneous and immediate.

The “ordinary observer” test is characterized in many different ways by judges and analysts, but ultimately the decision is a factual determination made by the ordinary men and women who comprise a jury.

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23 MELVILLE AND DAVID NIMMER, NIMMER ON COPYRIGHT, §4-13.03 (2005) (quoting Harold Lloyd Corp. v. Witwer, 65 F.2d 1, 18 (9th Cir. 1933)).
Courts and juries work to protect literary expression while assuring that copyright does not extend to the underlying ideas embedded in a work. Only the original expression is protected, so novelty and originality of ideas are outside the protection and separated from the text. “Boy meets girl” cannot be protected by law, only the details of a particular love story can create copyright ownership.

A more sophisticated version of the test attempts to first separate out ideas, facts, and other non-copyrighted aspects of the works. Only once these elements are filtered out of the comparison should the two works be compared. Some courts adopt this test, others adopt it selectively.

Once the copyright owner has established access to the plaintiff’s copyrighted work and substantiality between the two works, the defendant will try to prove an affirmative defense to the claim of copying. For example, the defendant may acknowledge copying but claim that the copying of material was a fair use, so that no liability should apply.

2. Injunctions and remedies.

If copyright infringement is established, courts generally enjoin the defendant from further copyright violations. This will result in an immediate bar to sale of infringing goods and a judicial order that all master copies, dies or other source materials used to make infringing copies be destroyed.

The copyright owner is entitled to the actual damages caused by the infringement and the profits received by the infringer, to the extent that they exceed the measure of damages. The profits are the net proceeds earned by the infringer, by the sale of the infringed work, after deducting all actual expenses for preparing the work for sale.

For copyrighted works that were registered with the U.S. Copyright Office within three months of publication, the successful plaintiff may elect to receive statutory damages rather than actual damages. Statutory damages remove the difficulty of proving the precise extent of damages, an amount that is often speculative and difficult to prove. The statutory damages for a work can range from $750 to $30,000 “as the court considers just.”\textsuperscript{24} If the court determines that the infringement was “committed willfully, the court in its discretion may increase the award of statutory damages to a sum of not more than $150,000.”\textsuperscript{25} Willful infringement includes outright copying of the copyright owner’s work, or ignoring a “cease and desist” letter by the copyright holder, notifying the infringer of the infringement and demanding that the unlawful activity cease.

In addition, the prevailing party in a copyright lawsuit may be awarded attorneys’ fees at the discretion of the court. This applies to the successful defense of a lawsuit as well as the successful prosecution of such a claim. If an infringement is willful, it is much more likely that attorneys’ fees will be awarded.

3. Violating the copyrights of others.

For companies, copyright can be infringed in a variety of ways, so a business must be diligent to ensure its employees do not copy other companies’ works. Common company copyright infringements include:

- Copying software from other companies to shorten the development cycle of products.

\textsuperscript{24} 17 U.S.C. § 504(c).
\textsuperscript{25} Id.
• Copying brochures and marketing material.
• Using photographs without reproduction permission.
• Posting material from the Internet to the company’s website without the permission of the copyright owner.
• Copying the images or text from product packaging.

These examples are typical mistakes companies make in using copyrighted materials. Senior company officials must also do more than utilize employment handbooks prohibiting copyright violations. The company must actively review the content it creates to be sure no copyright infringement is taking place. Otherwise, the company may find itself responsible for willful infringement of another party’s copyrights.

Because fair use is a vague legal rule, companies must be diligent to protect the copyrights of others when quoting material and researching. In the end, the difference between infringement and research may turn on the number of sources cited and the range of materials used. In contrast, too conservative an approach to fair use undermines the public benefits of commentary, criticism and research that fair use was designed to provide. Companies should be mindful of industry practice and seek to model behavior after the accepted protocols in each field.

E. The International Implications of Copyright Law and Practice.

Copyright is subject to many multilateral and bilateral treaties, which grant authors of one country protection under the laws of the other countries that are party to the treaty. There is no true international copyright. Fortunately, the United States has treaties with most countries of the world, so authors have a high degree of copyright protection, even if the specifics of that protection may vary from nation to nation.

1. Extraterritorial protection of U.S. authors.

The first international copyright treaty in the world was the Berne Convention, established in 1886. The United States was unwilling to adjust its domestic laws to comply with the Berne Conventions, so it began entering into bi-lateral treaties in 1891 and promoted an alternative treaty, the Universal Copyright Convention, beginning in 1955. The United States was a latecomer to the Berne Convention, and indeed, to most of the international protection of copyright. As international trade increased, however, and goods protected by copyright became an increasingly important part of that trade, changes were made in both U.S. law and Berne treaty interpretations to allow the U.S. to participate. The U.S. joined only as of March 1989.

Through the two multi-national treaties and a number of bi-lateral treaties, U.S. copyright holders are protected if their works are infringed abroad. Despite these treaties, an action for copyright infringement often requires that the lawsuit be brought in the country where the infringement has occurred, making the enforcement of a copyright holder’s rights abroad expensive to protect.

An author who is a U.S. national or domiciliary automatically receives copyright protection in all Berne Convention countries. The Berne Convention has no formalities and most member countries have no provision for notice or registration of copyrighted works. In contrast, under the Universal Copyright Convention, the pre-1989 notice should still be used. This means that the copyright symbol © (© in a circle), year of first publication and the name of the copyright proprietor should appear on the work (e.g., © 2006 Jane Doe).
Many foreign jurisdictions do not recognize the work-made-for-hire doctrine, or may not apply it to the category of specially commissioned works. Any contract providing for transfer based on a work-made-for-hire category should include an alternative clause providing for an assignment of copyright in the event that the jurisdiction does not recognize the validity of the work-made-for-hire transfer.

2. Exploitation of foreign copyrighted works.

Foreign authors receive similar protection for their works used in the United States to U.S. authors being used abroad. Under the Berne Convention, a Canadian, French, or other Berne national or domiciliary is entitled to full copyright protection, as if the work had been created by a U.S. author.

There is one notable distinction between U.S. and foreign works. The length of copyright protection varies from country to country. A work in the U.S. public domain may remain under copyright protection in the foreign country, while a work in the public domain in the foreign country remains under copyright in the U.S. Therefore, it is important that the copyright owner’s research include major international markets in addition to the U.S. status, especially when the project involves a long-running international copyright.
Chapter 13. Trademarks, Service Marks, Brands, and Trademark Law

A. Attributes of Trademarks.

<table>
<thead>
<tr>
<th>Trademarks</th>
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<tbody>
<tr>
<td><strong>Subject Matter:</strong> A word, phrase, symbol or design, or a combination of</td>
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<tr>
<td>such, that identifies and distinguishes the source of the goods.</td>
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<tr>
<td><strong>Method Acquired:</strong> Through usage.</td>
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<tr>
<td>□ May only be used after federal registration, but TM and SM may</td>
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<td>be used at any time.</td>
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<tr>
<td><strong>Term:</strong> Indefinite, trademark will continue so long as usage continues.</td>
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<tr>
<td><strong>Time Needed to Acquire:</strong> May be acquired as early as six months prior</td>
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<tr>
<td>to use in commerce, but generally acquired when mark is used in</td>
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<td>conjunction with the use of goods or services.</td>
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<tr>
<td><strong>Renewals:</strong> An Affidavit of Use (&quot;Section 8 Affidavit&quot;) must be filed</td>
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<tr>
<td>between the fifth and sixth year following initial registration, and</td>
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<td>within the year before the end of every ten-year period thereafter.</td>
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<td><strong>Federal Government Office and Website:</strong> United States Patent and</td>
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<tr>
<td>Trademark Office: <a href="http://www.uspto.gov">www.uspto.gov</a></td>
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<tr>
<td><strong>Transfer:</strong> Assignable. Registration available through USPTO.</td>
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<tr>
<td><strong>Property Excluded from Protection:</strong> No protection for inventions,</td>
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<td>ideas, or products.</td>
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<tr>
<td>Limited to protect the marks when used to designate the goods and services, rather than providing exclusive ownership of the mark.</td>
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<tr>
<td>Trademarks do not to prevent others from making the same goods or from selling the same goods or services under a different mark.</td>
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B. Trademarks Explained.

1. *Subject matter of trademark law.*

Trademarks are the most visible form of intellectual property used by businesses, dating back to the origins of commercial trade. In both Europe and Asia, archaeologists have identified the practices of artisans, smiths and others identifying the source of their goods with marks or engraved names. Through these marks, consumers knew who was responsible for the quality of a product. A successful vendor could expand his business through his reputation. In the alternative, the family
members of a blacksmith’s unfortunate customer could seek appropriate revenge if a poorly forged sword broke in battle and led to its owner’s untimely demise.

From its origins, trademarks are fundamentally different than patents or copyrights because trademarks were conceived as protecting the public rather than the user of the trademark. Although this distinction has blurred at various times, the fundamental difference in emphasis explains a great deal about the evolution of trademark law and protection.

A trademark is defined as “any word, name, symbol, or device, or any combination, used, or intended to be used, in commerce to identify and distinguish the goods of one manufacturer or seller from goods manufactured or sold by others, and to indicate the source of the goods. In short, a trademark is a brand name.” A trademark is very context-specific. For example, “apple” is the generic name for a fruit but also serves as a valid trademark for a grocery store chain, a record label and a computer manufacturer. The grocery store chain has nothing to do with the computer company, which illustrates that the scope of a trademark is shaped by public perceptions of the trademark and the scope of the company’s activities.

The laws of trademark block third parties from using a trademark in a manner which interferes with the public’s interest not to be confused regarding the source of goods or services. Trademarks differ from copyrights and patents because they are not considered personal property. For example, if a new company selected the name Apple Software, it would be likely to confuse the public, so Apple Computer would be successful if it were to bring a lawsuit against this new company. In contrast, if a tree nursery was to adopt the name Apple Fruit Trees, then Apple Computer would be unlikely to prove the public was confused by the association with the word apple.

The explanation that treats trademarks as having no personal property tends to understate the property interests companies have in their trademarks. Changes in U.S. law that permit applications to protect trademarks before they are used, along with state and federal law protecting the trademark from dilution, disparagement, or tarnishment, all reflect the property interests held by the trademark holder. As a result, trademarks are better considered to have both property and consumer protection aspects, rather than to be wholly lumped into one category or another.

2. **Sources of legal protection from both state and federal law.**

The U.S. Constitution provides federal power for copyright and patent legislation because such laws need to be uniform throughout the country. Congress, nearly a century after providing federal protection for copyright and patent legislation, provided the same protections for trademarks. As a result, in 1879, an attempt to create national trademark laws was struck down as beyond the power of Congress. The first successful federal law was enacted two years later regulating only interstate use of trademarks and left states free to regulate trademarks used exclusively within a state.

The result of this trademark history is a two-tiered system of trademark protection. State law can protect trademarks used only within that state, while federal law protects the interstate use of trademarks. In recent years, however, the Internet has undermined the core of this distinction, causing geographically diverse and highly local businesses to run into customer confusion on the Internet.

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27 In re Trade-Mark Cases, 100 U.S. 82 (1879).
In addition, because trademark protection relies primarily on the use in commerce of the trademark, actual usage is more important than registration at either the state or federal level. To assert trademark priority, a business must show it used the trademark first.

3. **Benefits of federal trademark registration.**

The registration and filing processes reinforce the central axiom that the business which first uses a trademark in commerce has priority to use that trademark and to stop others from making use of that trademark in a manner likely to confuse the public. In this way, the federal trademark system builds upon the common law and state law system to create a national clearinghouse for trademarks used in the United States.

To encourage use of the federal system, Congress has created incentives for participation in the federal regime. Federal trademark protection is preferable to state trademark protection because it has a much broader geographic scope. The USPTO lists other benefits as well:

- Constructive notice nationwide of the trademark owner’s claim.
- Evidence of ownership of the trademark.
- Jurisdiction of federal courts may be invoked.
- Registration can be used as a basis for obtaining registration in foreign countries.
- Registration may be filed with U.S. Customs Service to prevent importation of infringing foreign goods.  

The benefits are procedural in nature. The existence of trademark protection flows from the use of a mark in commerce rather than a particular state or federal filing.

4. **A trademark must be distinctive.**

At the heart of trademark is the obligation that the trademark be distinctive. The very definition of a trademark provides that the purpose of the use of the mark is “to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”

The distinctiveness or distinguishing characteristic of the trademark must establish a one-to-one relationship between the manufacturer and the product. If two companies both use the same trademark on similar products, then the public will not know which company provided the good, and the mark cannot be used. The level of distinctiveness turns on the creativity of the mark adopted and the association made by the public.

Under longstanding law and tradition, there are “four different categories of terms with respect to trademark protection. These classes are (1) generic, (2) descriptive, (3) suggestive and (4) arbitrary or fanciful.” Generic terms can never be trademarks while arbitrary or fanciful marks with few exceptions can always be used as trademarks. Suggestive, arbitrary or fanciful marks are entitled to trademark protection without direct evidence that the public associate the trademark with particular goods. For example, “squirrel” is an arbitrary name for computer software and thus would be available to use as a product name unless it is in use by another party. In contrast, “squirrel”

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would be generic for squirrel cages, just as “software” would be generic for software. A fanciful mark is different than an arbitrary mark because it is invented by the owner. Alternatively, “squirrel” might be suggestive of a children’s toy collection of plastic nuts.

As one leading court opinion observed,

[t]he category of “suggestive” marks was spawned by the felt need to accord protection to marks that were neither exactly descriptive on the one hand nor truly fanciful on the other…. A term is suggestive if it requires imagination, thought and perception to reach a conclusion as to the nature of goods. A term is descriptive if it forthwith conveys an immediate idea of the ingredients, qualities or characteristics of the goods….

The goal of companies launching new products is to have a trademark that associates the product with the attributes that the manufacturer hopes will promote the item, making the item more relevant to the consumers. Suggestive marks are often selected to reinforce the attribute that the seller is hoping to promote. For example, the trademark “Sleep Comfort” adjustable beds provides a rather descriptive appellation of the feature that such a mattress should provide. Tempur-Pedic, a registered trademark, alludes to the temperature control attribute and orthopedic benefits of the bed. The USPTO did not find the name Tempur-Pedic too descriptive for trademark registration. Another competitor, Angelbeds, uses an even more suggestive allusion to the bed’s lightness of the touch.

5. **Secondary meaning and acquired distinctiveness.**

If a mark is not distinctive when first used, it may become distinctive by its association with the goods over time. Generic words, however, can never become trademarks. “Bed” could never be used as the trademark for a bed. Descriptive words, in contrast, may become distinctive through ongoing usage, if the usage is “exclusive and continuous” for a period of five years. So if only one company is using a descriptive word or phrase for its product, then that company may gain trademark rights over it. “A term which is descriptive ... may, through usage by one producer with reference to his product, acquire a special significance so that to the consuming public the word has come to mean that the product is produced by that particular manufacturer.... This is what is known as secondary meaning.”

The crux of the secondary meaning doctrine is that the mark comes to identify not only the goods but the source of those goods. To establish secondary meaning, it must be shown that the primary significance of the term in the minds of the consuming public is not the product but the producer (citations omitted). This may be an anonymous producer, since consumers often buy goods without knowing the personal identity or actual name of the manufacturer.

To establish that a mark has acquired distinctiveness in the marketplace and is no longer merely descriptive, the business using the mark may rely on evidence of acquired distinctiveness by showing the consumer’s knowledge of the mark as well as by verifying the substantially exclusive and continuous use of the mark for a period of five years. In addition, the existence of federal trademark registration of the mark for other goods sold by the business may substantiate the claim

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31 Id. (internal quotations and citations omitted).


of distinctiveness.

Survey evidence, market research and consumer reaction studies may be useful in showing the acquired distinctiveness of a mark. Other factors demonstrating distinctiveness of a mark include the length of time the mark has been used, the advertising expenditures invested in promoting the mark, the care in which the words were used as a trademark, affidavits and declarations by knowledgeable individuals regarding the use of the mark, and other evidence that helps establish the mark’s role as a unique, exclusive identifier of the goods. These rules parallel the manner in which a business should promote and manage its trademarks.

6. **A trademark owner must be first in priority.**

Because trademark law was historically based on actual usage, the party using the mark in association with the goods has priority over other users. But a priority does not equate to a monopoly. Businesses may often select the same marks, totally unaware of other users of the name in other markets.

To set national notice standards, the federal application process provides a single, national registry. If a company federally registers its trademark, then the entire country is put on constructive notice of the registration. With a federally registered trademark, no one can rely on their lack of knowledge about potential competitor’s use of the same trademark. The “innocent user” defense is blocked from the date of application on the federal register. As a result, the registrant of a federal trademark cannot find itself facing a claim that another company began using the trademark in another state after the date of the federal registration.

A federal trademark registration can only be made if the registration does not interfere with the rights of other trademark holders. A company cannot receive federal trademark registration for a mark that resembles another mark – whether registered or not – that is likely to cause consumer confusion, cause mistake, or otherwise deceive the public. This limitation of consumer confusion is at the heart of trademark practice.

The examination process of the federal trademark application is designed to assure the examiner that the use of the requested mark does not infringe the use of any other trademark holder, so as to eliminate the likelihood of consumer confusion.

Once a trademark is used, particularly if it is federally registered, the trademark owner has an obligation to enforce the trademark against others using the mark. In most situations, when a third party adopts aspects of a company’s trademark, it is done without the company realizing the situation. Once the two companies are aware of each other, however, action must be taken. Failure to police the trademark will undermine the trademark owner’s obligation to use the mark exclusively, as required by both state and federal law. If the trademark owner allows others to use the trademark without taking any action, the exclusivity is lost and the trademark rights may be destroyed.

7. **Junior users and other limitations.**

The senior user is the first business to adopt the trademark and is therefore the party with priority. A junior user is the business adopting the trademark subsequently. A junior user cannot generally gain the right to use a trademark if it knowingly adopted the trademark of another party. Instead, the law only protects the innocent junior user from losing the investment it has made in its name and the public’s interest in identifying the sources of goods. This limited junior protection provides another strong incentive for the senior user to “police” the mark, being careful to let potential junior users know that the trademark is used by a senior user and that the junior use is not
A junior user who adopts a trademark with no knowledge of the senior user’s mark may develop rights in the trademark in the geographic area where that mark has been used exclusively and continuously. “[J]unior users, parties who use a mark subsequent to another’s use, may retain rights. If the use predates the senior user’s [federal] registration, then the [Federal Trademark] Act provides a defense if the mark ‘was adopted without knowledge of the registrant’s prior use and has been continuously used by such party …from a date prior to registration of the mark....”\footnote{Peaches Entm’t Corp. v. Entm’t Repertoire Assocs., 62 F.3d 690, 692-93 (5th Cir. 1995), quoting 15 U.S.C. § 1115(b).}

The geographic scope of the junior user’s trademark is typically determined by the nature of the business practices that existed prior to the trademark dispute. In the case of Peaches Records, for example, the Louisiana record store was permitted to operate in the seven parish region where it sold its records, while the owner of the federally registered trademark in Peaches could sell its records in stores everywhere in the United States other than those seven parishes in Louisiana. A similar dispute between New York’s Patsy’s Pizzeria and Patsy’s Italian Restaurant suggests that the boroughs of New York are sufficiently geographically distinct as to be separated for trademark purposes.

In addition, the failure of the senior trademark holder to police the trademark can sometimes result in a claim of “laches,” meaning that the court may choose not to allow the trademark owner to bring a claim if the claim should have been brought in a timely fashion years earlier. If the passage of time has prejudiced the junior user, and the senior user was at fault for not taking action, then the court will not allow the senior user to exercise its rights. Such a determination is at the discretion of the court, but it is a risk that the senior trademark owner should not take.

8. Use of surnames.

Although the use of surnames in business has been common throughout history, the use of a person’s name is not a strong trademark strategy. The law provides that trademark registration may be denied if the mark is primarily considered merely a surname. The right to use one’s surname as a trademark would preclude many others with the same name from conducting business using their own names. This restraint on a person’s livelihood is highly intrusive and should occur only if the public would be greatly confused or misled by the use of a junior surname. McDonald’s may be the best example of a surname that should not be used by a second individual to operate a fast food restaurant. Few other restaurant names, however, should be owned by an individual to the exclusion of others bearing the same name.

Surnames can develop into trademarks. Names have the benefit of being arbitrary as applied to most goods. Retailers with names such as Macy’s, J.C. Penney, Bloomingdale’s, Woolworths all bear little relation between the name and the service. To develop into trademarks, however, the demonstration of longstanding use and acquired secondary meaning must be strong enough to overcome the burden exclusivity would create for others with a similar surname.

Words that double as surnames require additional analysis. Since there are many individuals whose surnames are common words, whether spelled the same or not, the law requires that the limitation on surnames focus on those which are “primarily” surnames. King, Queen, Cotton, Wolf, Fox, Powers and Lane are examples of relatively common surnames that have obvious English language usage. For this category, the trademark office will look at whether the selection is used as a surname or as its English language meaning in determining the eligibility to receive the trademark registration. Names such as Jones, Smith, Rodriguez, Garcia, Liu and Eng are all very common...
names that have no English language usage, so they are always treated as surnames.

Because marks are looked at as a whole, a hyphenated surname such as Hewlett-Packard will be less likely to be treated as a surname. While the question remains whether the public will perceive the name as a surname, as a general statement, the public is less likely to do so. In contrast, if the person seeking to register the trademark goes by a hyphenated name, then the examiner is more likely to treat the name as merely a surname and deny registration.

9. Unfair competition as a broader alternative.

It is important for the trademark owner to remember that the goal of federal trademark law is primarily to protect the public from confusion and to stop fraudulent or unfair competition. Section 43(a) of the trademark law creates broad protection for registered and unregistered trademark owners alike to stop competitors from misleading the public by “palming off” one’s own products as the products of another party.

(a) (1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person’s goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.\(^{35}\)

The law does not restrict itself to federally registered trademarks, so legal protection can extend to surnames, nicknames and phrases. Similarly, it extends to the goods and services themselves, as well as to the packaging and advertising of those goods and services. To maintain a legal action under §43(a), the trademark use must be false or misleading, and it must be likely to confuse or deceive the public. If these two elements can be established, then the court is likely to protect the senior user of the mark, regardless of the status of registration.

10. Service marks, collective marks and certification marks.

In addition to trademarks, marks are used in a number of other situations. A service mark is a mark used for services rather than for goods, or more specifically, “to identify and distinguish the services of one person, including a unique service, from the services of others and to indicate the source of the services, even if that source is unknown.”\(^{36}\) Service marks have essentially the same relation to services that trademarks have to goods, and the rules are the same for both.

Certification marks range from the “union label” to approvals by Underwriters Laboratory, Better Business Bureau, or other voluntary quality assurance systems. A “certification mark”


\(^{36}\) Id. § 1127.
represents any mark used to “to certify regional or other origin, material, mode of manufacture, quality, accuracy, or other characteristics of such person’s goods or services or that the work or labor on the goods or services was performed by members of a union or other organization.” The owner of the certification mark is typically a union, trade association, or certifying agency. Those owners must manage the certification mark like most trademark owners. Other certification marks are assertions of fact. “Idaho Potatoes” may be used by any potato farmer in Idaho, but not by a potato farmer outside the state.

For those parties acting under the auspices of the certification mark, the mark owner will likely have contractual obligations regarding the conduct of the business and the use of the mark. Those contractual obligations or rules are controlled by the agreement between the certification mark owner and the business being certified.

A collective mark is somewhat different than the certification. A collective mark is “used by the members of a cooperative, an association, or other collective group or organization such as fraternities, trade associations, and Indian tribes.” For example, North-Eastern Band of Cherokee Indians is a collective mark designating membership, as is United Way. The collective mark shows affiliation rather than approval. Chapters of loosely affiliated national organizations are the most common example of collective marks. Of course, some marks may serve both roles, acknowledging the membership in an organization that also sets high minimum competency standards.

Collective marks are a form of service mark, while certification marks may be applied to either goods or services. Throughout the law, business and this text, the word mark encompasses all forms of trademarks, service marks, collective marks and certification marks. The rules applying to trademarks for goods apply in the same way for service marks for services.

C. Dilution and Disparagement.

Although traditional trademark law has focused on protecting the consumer rather than the property interests of the trademark owner, the doctrines of dilution and disparagement recognize that there are property interests at issue for certain trademarks, particularly highly prominent and publicly recognized marks. As the Supreme Court recently explained, “[u]nlike traditional infringement law, the prohibitions against trademark dilution are not the product of common-law development, and are not motivated by an interest in protecting consumers.”

1. Dilution.

Certain highly renowned trademarks are so well known that the use of those trademarks in unrelated fields would tend to associate those fields with the senior user’s trademark. Failure to provide legal redress in this situation could result in the “dilution” of that mark; it would become associated with a broader range of goods or services. Tiffany lamps, Rolls-Royce cars and similar elite trademarks are the most obvious examples where this concern exists.

The consequence of protecting trademarks from dilution is to greatly expand the power of the trademark owner. Various states have protected trademarks from dilution since 1925 but only in recent times has the federal statute added dilution to the range of rights protected.

The Federal Trademark Dilution Act of 1995 provides –

37 Id.
38 Id.
owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person’s commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark.\textsuperscript{40}

State laws are similar, but vary from state to state, with many states providing an even stronger form of dilution protection.

Federal law places a few limitations on dilution protection. First, the language of the statute itself provides three situations where the use of another company’s famous trademark does not interfere with that company’s rights. Anyone may make “noncommercial use” of the mark, use the mark for “all forms of news reporting and news commentary” and make fair use of the mark for “comparative commercial advertising or promotion to identify the competing goods or services of the owner of the famous mark.”\textsuperscript{41} These limitations are of a fair use and free speech nature, so they will generally be read into the law of most states as well, though the precise scope of the law’s application may still vary from state to state.

Two leading federal lawsuits have helped clarify the rule that dilution will only violate the trademark owner’s rights if it is causes actual dilution. A mere fear that the public is likely to associate one’s trademark with the trademark of the junior user is insufficient. In the first example, the state of Utah used the “greatest snow on earth” as a license plate slogan. The Supreme Court explained that “even though Utah drivers may be reminded of the circus when they see a license plate referring to the ‘greatest snow on earth,’” it by no means follows that they will associate ‘the greatest show on earth’ with skiing or snow sports, or associate it less strongly or exclusively with the circus.”\textsuperscript{42} Similarly, the claim that Victoria Secret’s trademarks were diluted by Victor’s Little Secret was rejected because there was no evidence of actual dilution.

Unlike situations in which a famous trademark is parodied or referenced, the Supreme Court suggests that a direct use of a famous mark may be stopped on far less evidence. The Court referenced statements in the hearings on the new law that “‘the use of DUPONT shoes, BUICK aspirin, and KODAK pianos would be actionable under this legislation.’”\textsuperscript{43} These congressional statements suggest little evidence is needed when famous marks are duplicated by unauthorized junior users. Entrepreneurs must therefore exercise caution in developing and adopting trademarks if they utilize the famous marks of other companies, even if those companies do not conduct business involving the goods or services of the entrepreneur’s new business.

2. **Disparagement or tarnishment.**

Disparagement or tarnishment represents another property-like interest in the trademark. Disparagement protection provides the trademark owner tools to stop misuse of a company’s trademark in a manner that may bring the trademark into disrepute. A popular tee-shirt which showed the word “Cocaine” written in the trademarked Coca-Cola script illustrates the nature of tarnishment that companies try to stop. Toy manufactures and children’s media often face unauthorized use by adult-oriented businesses trying to use the association for attention and the juxtaposition for humor, but at the expense of the family-oriented business. The law is generally

\textsuperscript{41} Id. § 1125(c)(4).
\textsuperscript{42} Moseley, 537 U.S. at 433-34.
\textsuperscript{43} Id. at 431, quoting H.R. Rep. No. 104-374, at 1030 (1995).
quite supportive of the efforts to stop these adult-only tarnishing uses. Courts are somewhat more respectful of parody and free speech concerns when the tarnishment is less salacious or the trademarks protect less wholesome goods.

The Federal Trademark Dilution Act of 1995 does not use the terms tarnishment or disparagement, but both the congressional testimony and a recent Supreme Court decision involving the law appear to extend the law to include these protections. The restatement on unfair competition law, a compendium of legal practices that are used as references by state courts, reports that a “highly distinctive” mark will be protected from “the association of the other’s mark with the actor’s goods, services, or business, or the nature of the actor’s use, is likely to disparage the other’s goods, services, or business or tarnish the images associated with the other’s mark.”

Disparagement claims tend to provide a greater scope of protection for trademark owners, allowing them to stop not only the direct use of their trademarks, but also clever puns or indirect references to their marks that the federal courts would not recognize under a dilution claim. For the entrepreneur hoping to develop economic value in his own marks, the temptation to use the literary reference to another party’s trademark must be carefully weighed against the cost of fighting a trademark battle, particularly if the likely outcome of such a battle will be a loss of the entrepreneur’s trademark and good will.

D. Acquiring, Licensing and Maintaining Trademarks.

Because many trademarks are created through usage over time, the nature and formality of trademark acquisition is somewhat different than other forms of intellectual property. In addition, because trademarks have a dual function as a property interest and a consumer protection mechanism, the rules governing their ownership and transfer are unlike most types of property.

1. Use in commerce.

The primary method of acquiring a trademark is through using it in commerce. For federal law, this requires that the use be in interstate commerce, meaning that the goods or services are sold across state lines or marketed to the public from out of state. Mail order and Internet sales serve this purpose well. For a restaurant seeking a service mark in its name, evidence of marketing to customers in neighboring states and the patronage by those customers is strong evidence of interstate commerce.

The nature of the evidence required to establish usage of the trademarks and service marks differs somewhat because trademark owners use the marks differently for goods than services. Evidence of use of a mark for goods in interstate commerce must appear directly on the goods, on labels, on shipping containers and packages, or on displays. When filing the trademark application, a photograph of the products bearing the trademark is acceptable rather than sending the actual product. Leaflets, brochures, publicity releases and similar items do not provide evidence of the use of a mark with goods because they are too indirect.

Services must display the service mark in their advertising or sales literature. Signs, brochures about the service, advertisements and even business cards and stationary may be acceptable evidence of a service mark. These items would not be accepted for evidence of a trademark for goods, but given the lack of a tangible item with which to attach the service mark, they are sufficient.

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2. **Intent to use.**

The United States has modified its federal laws to permit the filing of trademark applications for trademarks that are not yet used in commerce. This need was created by increasing international trade and the desire to bring U.S. policy in line with the international norms of trademarks as a property regime rather than a consumer protection regime. Because this is a significant change from the U.S. practice, it has many limitations. The trademark applicant hoping to protect a trademark not yet in use must proceed with a great deal of care.

The intent to use application allows a company to provide a declaration that it has a bona fide intention to use the mark in commerce. This simple form, along with evidence similar to the type required for trademark use in commerce, will allow a company six months in which to begin using the trademark. This six month period can be further extended up to three years with extension applications and filing fees.

The actual registration will not take place until after the mark has been used in commerce and the company has filed a form entitled “Allegation of Use,” which documents the use of the mark. The intent to use application has a significant advantage for the launch of a new product or service because it allows the entrepreneur to pre-clear the name of the product and avoid the expense of selecting a mark that will be opposed.

3. **Elements of an application – specimens and drawings.**

Although the definition of a trademark includes the broadly inclusive statement that a mark may be “any word, name, symbol, or device,” most trademarks are textual – typically common or proper nouns. The second largest category would be comprised of images in the form of designs, pictures, or logos. The text trademark is known as a “standard character” (formerly “typed”) drawing while a drawing including a logo or image is a “stylized or special form” drawing.

One point of confusion between the two categories is the protection of typeface or font. If the trademark owner claims the specific typeface or font is part of the trademark, then that trademark requires a stylized or special form drawing. The special form drawings can also protect the specific choice of color in the trademark, but unless this is specially applied for, the application is based on black and white trademarks only. The standard character application includes the following disclaimer: “The mark is presented in standard character format without claim to any particular font style, size or color.” If the trademark owner wishes to make color, font, size or image part of the trademark, then it must file the special form application.

To file the federal trademark application, the trademark owner must file an actual example of the trademark as it is actually used in commerce or intended to be used in commerce. The example is known as a “specimen” of the trademark. The specimen shows how the drawing relates to the goods or services for which the application is sought.

The specimens that may be used for the trademark application tie directly to the examples of the trademark that establish that the mark is properly used in interstate commerce. As a result, for goods, the trademark submitted should be on tags, labels, containers, or displays. Given the size and dimensions of products, photographs that capture the specimen and the product are sufficient. The actual products should not be provided to the PTO. The PTO uses the specimen to determine that the trademark is actively used in commerce in conjunction with the product. Thus, invoices, announcements, order forms, bills of lading, leaflets, brochures, publicity releases, letterhead and

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45 37 C.F.R. § 2.52(a) (2005).
business cards are rejected because they fail to show this connection.

Similarly, the specimens that may be used for a service mark application tie directly to the examples of the service mark that establish the mark is properly used in interstate commerce in conjunction with the service promoted. Unlike specimens for trademarks, service marks allow a more general category of specimens, including signs, brochures about the business, advertisements, business cards and stationary which shows the services provided. The specimen must show the relationship between the mark and the service. As the PTO explains, “[t]here must be some reference to the type of services rendered on the specimen, i.e., not just a display of the mark itself. For example, if the mark sought to be registered is ‘XYZ,’ a business card that only shows the mark ‘XYZ’ would not be acceptable. A business card that states ‘XYZ REAL ESTATE’ would be acceptable.”

4. Acquisition through purchase or licensing.

The nature of the property interest in a trademark has a somewhat schizophrenic relationship to traditional notions of property. Trademarks are least like personal property in that they cannot merely be purchased and sold. Because marks must always relate directly to the goods or services used in commerce, they can only be transferred as part of transactions involving those goods or services.

For example, Imation’s recent acquisition of Memorex resulted in the purchase of the entire corporation. Imation announced plans to use the Memorex name as its premium label because of continued recognition. “Is it Live, or is it Memorex?” made Memorex audio cassette tapes a household name in the 1970s, and Ella Fitzgerald’s shattering of crystal embodied how branding can provide value to a commodity. While Imation may perceive the true value in the transaction as the Memorex label, the law requires that the product be associated with a name.

Instead of wishing to acquire a brand name from a company, it is more likely that another company would like to associate the name with its own goods. This commonly occurs with the sale of tee-shirts bearing company brands, but it also occurs commonly with the extension of one brand into another, corporate joint ventures and similar transactions.

The senior trademark owner can accomplish this by licensing the mark to the goods or services of a third party if certain conditions are met regarding scope and quality control. The most important of these conditions is that the senior trademark owner continues to have a significant involvement in the control of its trademark. Among the key provisions:

- Control of the mark itself – so that the licensee cannot change the wording or artwork of the trademark without permission.
- Control of the goods and services marked – so that each product or service using the mark is approved by the senior trademark owner.
- Quality control of the goods and services – the right and actual practice of reviewing the goods and services on which the trademarks are used to assure that they meet the standards of the senior user.
- Obligations to police the trademark – so the junior trademark user and the senior trademark user each have duties to be sure no infringement or unauthorized junior use is

46 USPTO, What must the trademark application include: Specimen, http://www.uspto.gov/web/offices/tac/doc/basic/appcontent.htm#spec.
occurring.

With a properly drafted license agreement, the licensee becomes a junior user of the senior trademark. This allows great expansion of a trademark’s reach into new fields.

5. **Benefits of co-branding and licensing.**

Co-branding is a version of licensing in which the owners of each trademark enter into a cross-license agreement, so that each company is the licensee of the other company’s mark for the purpose of promoting a particular good or service.

Cross licensing allows for the co-branding of cellular phones by the manufacturers and the wireless carriers, the expansion of cartoon characters into virtually every conceivable product line, the ability of diet book authors and restaurants to launch food lines and automobile companies to sell toy versions of their vehicles.

Trademark licensing and co-branding create opportunities for entrepreneurs to jump-start into new lines of business and expand the opportunities of other companies’ products. These relationships have the benefit of extending the brand reach of the senior user without distracting that company from its core competency. It provides a strategy for companies who have the potential to diversify but understand that diversification may lead to lack of focus and poor integration of business models across competing sectors. If instead of adding new divisions, an established company can simply employ a few trademark experts to focus on brand management, new revenue can be found with far less risk.

6. **Maintaining trademarks.**

Trademarks are highly valuable for a corporation. For commodity products, the premium price differential demanded by brand name goods is a quantitative reflection of the market value of the trademark. A less quantifiable aspect of that value is the shelf space made available to retailers. The market presence that results in greater market share for brand name goods also reflects the economic value of the trademark.

Valuable assets must be carefully maintained. If a trademark no longer reflects the particular source of the goods, the trademark can become the generic word for that class of goods.

Professor Charles McManis has written a simple seven step process to protect trademarks from becoming generic and losing their market value.

1. Select as fanciful or arbitrary a mark or name as possible.
2. Register it as a federal trademark at the earliest possible time.
3. So distinguish it in advertising that the public will recognize it as a trademark (i.e., use distinctive type face, quotation marks, etc. use the term in association with some other term which will function as a generic term and, where registered, use the symbol ®).
4. Avoid using corruptions of the term.
5. Use the mark on several different but related products.
6. Engage in continuous advertising.
7. Aggressively police the mark by challenging misuse of the mark, not only by competitors and other commercial parties, but by the public at large. To police a
mark, one may institute a media monitoring program with follow-up letters of varying degrees of forcefulness reminding editors, publishers, broadcasters and others businesses and public figures who have misused a mark or name, that it is a protected mark. …

Through this seven step process, the trademark that is carefully selected, registered, thoughtfully used and actively protected from misuse has the potential to return value to the trademark owner for decades and perhaps even centuries.

E. Enforcement of Trademark Rights.

1. Enforcing trademark rights before litigation.

Most trademark enforcement does not start or end on the courthouse steps. Trademark enforcement begins with internal policing to assure that the mark is not being altered or modified by company employees, vendors, manufacturers, retailers, or others in the product distribution process. A trademark which feels stale to the employees who see it every day may be just gaining recognition by the public which has only occasional exposure to the mark. Companies must actively police themselves to avoid clever modifications to their trademarks since material changes to the trademark will destroy the federal trademark registration.

Trademark owners must also work with newspapers, magazines and other publishers to assure that a trademarked term is not regularly used as a generic name for the category of goods or turned into a verb regarding the use of such goods. “Xeroxing a copy” is a phrase that risks diluting the Xerox trademark for photocopiers. The trademark owner has the obligation to educate the public on this misuse. Similar, terms such as “googling” risk genericizing the Google trademark for its search engine.

For companies that expect competitors are using their trademarks improperly, the trademark owner generally begins with a “cease and desist” letter. The letter typically explains the ownership of the trademark, the misuse of the trademark and a request that the misuse stop. Before this letter is sent, however, the trademark owner should invest time and resources to investigate the competitor. A trademark search should be conducted to better understand the trademark use by that company. Copies of the infringing trademark, specimens of the trademark on a range of the competitor’s goods or services, advertising and a comprehensive collection of the competitor’s trademark use should be collected. The more a trademark owner knows about the activities and use by an alleged infringer, the more effectively it can craft the cease and desist letter, and the more likely it can find a reasonable compromise to the dispute. The research helps the company explore the strength and weakness of its claim before the first shot is fired. As a result, the research may better arm the company for a future fight, or it may keep the company from entering a fight it should not fight or cannot win.

If the company’s trademark covers a broad range of uses and the alleged misuse is not directly competitive, the reasonable compromise is for the two not-quite-competitors to enter into a written agreement regarding each company’s use. This converts the potential infringement into a licensed activity, sets limits on the changes and results in a stronger, rather than weaker, trademark. If the parties cannot reach such an arrangement, or if the parties are actual competitors, then one of the parties must agree to stop using the infringing trademark. The owner of a trademark cannot back down once it learns of an infringement, because the knowing of the infringement and failing to take

47 CHARLES McMANIS, INTELLECTUAL PROPERTY AND UNFAIR COMPETITION IN A NUT SHELL 165 (2004).
action is tantamount to granting permission for the activity, greatly weakening the trademark’s scope and value. If both parties believe that they have priority to use the mark, then litigation may be the only solution to settle the priority of the trademark interests.

2. **Elements of the trademark infringement claim.**

To win a trademark action against an infringer of one’s trademark, the plaintiff trademark owner must be able to establish that (1) plaintiff has a valid trademark, (2) plaintiff has priority in the use of the trademark, (3) defendant has used an identical or similar trademark, and (4) the defendant’s use of the mark results in a likelihood of confusion on the part of the public.\(^{48}\)

The first two elements were discussed in the previous section. Federal registration of the trademark, though not essential, makes the evidence of the first element much easier to establish. Priority requires that the plaintiff be the senior user of the trademark – the party who used it first. As described above, there is a risk that two users were both using the same mark in different geographic regions at the same time. In this case, the junior user can establish priority in its geographic reason.

The third element is a factual question regarding whether the right defendant is in the lawsuit. If the defendant never used an identical or similar mark, it should not be sued. The plaintiff must prove that the defendant used the marks in commerce.

There is usually little evidentiary doubt of this element in cases involving established businesses, but it is the critical element in the case of intellectual property counterfeiters. Counterfeiters will make goods with fake trademarks that are quite close to that of the legitimate trademark owners. They will stay one step ahead of the law and the lawful trademark owners with false names and dummy corporations, making it harder to establish who is actually responsible for the piracy.

3. **Likelihood of confusion.**

For lawsuits involving legitimate competitors, the likelihood of confusion element is the most complex and heavily disputed. Different courts use different formulas for their analysis of likelihood of confusion, but the formulations tend to summarize the same test:

\[\text{[T]he court is required to consider several factors when assessing whether or not there is a likelihood of confusion by the general public: the degree of similarity between the marks in appearance and suggestion; the similarity of the products for which the name is used; the area and manner of concurrent use; the degree of care likely to be exercised by consumers; the strength of the complainant’s mark; actual confusion; and an intent on the part of the alleged infringer to palm off his products as those of another.}\] \(^{49}\)

No one of these factors will determine whether the court will find that it is likely the public will be confused by the defendant’s mark. Actual confusion is evidence of likelihood of confusion, but is neither required nor sufficient to answer the test. Instead, the courts use these factors to make a much more subjective determination. The court will find infringement if the two marks are too close to each other when used in the manner before the court.

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\(^{48}\) Nike, Inc. v. “Just Did It” Enters., 6 F.3d 1225, 1229 (7th Cir. 1993). *See also* A.J. Canfield Co. v. Vess Beverages, Inc., 796 F.2d 903, 906 (7th Cir. 1986).

\(^{49}\) Nike, Inc., 6 F.3d at 1228.
The factors the court weighs are interrelated. A highly fanciful or arbitrary trademark is stronger whereas a descriptive mark that relies heavily on the attributes of the goods is weaker. So the strength of the trademark will actually vary depending on the particular goods in question. For example, 3M's Post-it brand for notes is not quite as strong for small notepads as it is for removable CD labels or wall charts because the trademark is increasingly arbitrary for those goods. In a lawsuit, the nature of the goods in dispute may strengthen or weaken the mark.

The similarity of the marks is a critical feature. “Marks may be confusingly similar based on physical design, sounds, psychological, commercial, or social connotations and significance, color scheme, or linguistic characteristics.” If a court determines that the marks are not sufficiently similar, the plaintiff will not be able to prove its case. If the words, artwork and colors are all similar, the court is much more likely to find confusion than if only the words have some similarity.

In trademarks, spelling does not count, so “Light” and “Lite” are the same potential trademark. DreamWorks and Dreamwerks are identical for trademark purposes. Trademarks are reviewed in their totality rather than dissected when comparing them for similarity.

The comparison of products or services is also critical. As discussed earlier, identical marks are often used in unrelated fields. The closer the products are to each other, the more reasonable it is to expect the public to be confused by similar trademarks.

Similarly, the nature of the intended consumers of the goods will affect the comparison. The general public is not expected to pay too much attention to the trademarks or the goods. In contrast, a more discerning clientele is more likely to understand the nuance in the products and be able to avoid confusion more readily than casual purchasers. The more sophisticated the audience, the greater the trademark owner’s burden of establishing the likelihood of confusion.

Famous or well recognized trademarks also cast a larger shadow than marks that are less well recognized by the public. If the public does not know about a trademark, it cannot be confused by seeing something similar. Put another way, the more famous the trademark, the broader an array of goods and services it can cover.

As a consequence, the strength of the mark may extend from the individual marks to the family of trademarks. Perhaps the best known example of a family of marks comes from the extension by Kodak to Kodachrome and Kodacolor. A third party trying to launch Koda-Click for digital cameras would be barred because the Koda family of trademarks precludes such use. McDonald’s was successful in stopping the use of McBagel by a competitor because the McDonald family included the well known McMuffin, McChicken, Big Mac and the lesser known McPizza, McFeast and McDonuts. Ken McShea’s attempt to launch McBagel was barred because of the fame of McDonald’s trademarks and its active policing of those marks.

Finally, the intent of the alleged infringer goes to both the culpability of the defendant and the measure of damages. “The courts generally hold that proof of intent to infringe and to trade on the plaintiff’s good will raises a presumption of the defendant’s infringement and an inference that the public is likely to be confused.” If the discovery process or the nature of the trademarks demonstrates a willful intent to model the defendant’s trademark on the plaintiff, the courts often

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50 ARTHUR MILLER & MICHAEL DAVIS, INTELLECTUAL PROPERTY, PATENTS, TRADEMARKS, AND COPYRIGHT IN A NUT SHELL 262 (2000).
52 JEROME GILSON & ANNE GILSON LALONDE, 2-5 GILSON ON TRADEMARK PROTECTION AND PRACTICE § 5.07 (2005).
find that the defendant’s actions were purposefully seeking confusion, which satisfies the likelihood of confusion standard. Intentional misconduct is much more likely to result in the defendant being enjoined from continuing the misuse of the mark and may result in an award of attorneys’ fees against the defendant.

4. **Nominative fair use and collateral use.**

When the defendant uses the plaintiff’s trademark to describe the plaintiff’s product rather than its own product, the courts will provide it some latitude. This is important under both free speech principles and commercial competitiveness principles. The defendant must be careful to use the mark only to the extent necessary to identify the trademark owner’s products and do nothing that suggests sponsorship or endorsement of the defendant’s product by the trademark holder.

Fair use allows comparative advertising, identification of the products reviewed in each issue of a consumer products magazine and allows a certain amount of parody commercial conduct – so that the trademark owners remember not to take themselves too seriously.

Collateral use allows third parties to use a trademark to represent the accurate information about components used within the underlying products. A computer manufacturer has a legal right to identify the trademarked software sold as part of the bundled package of hardware and software shipped to the consumer. The software company cannot stop the manufacturer from including its product if the product is lawfully purchased, and it cannot object to the use of the trademark on the software itself. Collateral use is limited, however. It cannot be used to create a false impression of endorsement or mislead the public as to the association between the companies.

Collateral use also allows repair shops and reprocessors to accurately depict their business without running afoul of the trademarks owned by the companies – often companies who would prefer that no reprocessing of their products takes place. If a product is refurbished and put back into commerce, the reprocessor is not obligated to remove the trademark. Again, as with the product bundler, it cannot use the first manufacturer’s trademark to mislead the public as to endorsement or association, but it can use the trademark to show the source of the original goods.

5. **Other defenses to trademark infringement.**

There are always defenses to trademark litigation, and these defenses serve as warnings to the trademark owner regarding the diligence necessary to police their trademarks. Professor McManis lists the defenses as “abandonment, loss of distinctiveness (i.e. genericide), functionality, and collateral or fair use … and the equitable defenses of laches, estoppel, acquiescence, and unclean hands (including misuse).”

If a trademark becomes generic because the term is used for a category of goods rather than for a particular manufacturer’s goods, then anyone is free to use that trademark. Similarly, if the trademark owner stops using the trademark in commerce, then it may have been deemed to have abandoned the trademark, giving up its rights to stop others from using the trademark.

The equitable defenses focus on the conduct of the trademark owner and whether justice is served by enforcing the rights of that trademark owner. If the trademark owner was not diligent in pursuing the claim, then the junior user may have invested considerable time and effort in pursuing the uncontested trademark use. Courts may refuse to grant relief to a company that has failed to police its trademarks vigorously and let other competitors use the trademark to grow in the marketplace.

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53 McManis, supra note 22, at 202.
F. The International Implications of Trademark Law and Practice.

Trademarks are territorial in nature, meaning that the laws of each nation govern the protection of trademarks used in that country. With the growth of international commerce, however, the ability to use the same trademarks across multiple countries is increasingly a financial imperative. To improve the consistency across nations and streamline the administrative requirements, international treaties have been developed to coordinate marks across the globe. The World Intellectual Property Organization (WIPO) is the U.N. body primarily responsible for managing these international treaties.


Although the first of these treaties dates to 1891, only recent changes have made it possible for U.S. companies to gain significant benefit from these treaties. The U.S. joined the Madrid Protocol in 2003 and the European Union joined in 2004. The Madrid Protocol (or formerly “The Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks”) is a separate treaty from the 1891 Madrid Agreement, which the U.S. continues to refuse to join. Instead, by creating the Madrid Protocol, U.S. companies can gain the primary benefit of trademark protection in the Madrid Union countries with a single filing at the USPTO in English and paid with U.S. currency. Since the European Union has also recently joined, the value of this application has increased significantly.

The Madrid Union does not include Canada or Mexico, so U.S. companies operating across North America should be aware that regional applications still require additional state-by-state applications.

For the Madrid Union countries, however, the application process has never been easier. “Any trademark owner with an application filed in or a registration issued by the USPTO and who is a national of, has a domicile in, or has a real and effective industrial or commercial establishment in the United States can submit an international application through the USPTO.” Eligible companies must have one or more basic U.S. applications or registrations, and the owner of the international mark must be the same as the U.S. mark. The international application must include a list of goods and services that is identical to its U.S. registration or is a subset of those goods and services.

If the international application meets the USPTO requirements, the USPTO will certify the application or registration and forward the international application to the International Bureau. The International Bureau, in turn, reviews and registers the mark. It then forwards the mark to each county in the Madrid Union designated by the applicant. Although each country can object to the registration locally, they have only eighteen months to do so, and following that period, the registration is accepted. Thereafter, like the U.S. registration, the international application requires renewal and maintenance fees every ten years.

2. Continued international enforcement.

Registration remains only the first step in trademark protection. With a registered trademark, the trademark holder still has the ongoing obligation to police its marks and stop infringers in each country where the mark is registered or used. As a result, the Madrid Protocol is an extremely helpful first step, but it does not eliminate the national borders for policing, enforcement, or management of the trademarks and brands.

Chapter 14. Publicity Rights and Privacy Law

A. Attributes of Publicity Rights.

<table>
<thead>
<tr>
<th>Subject Matter:</th>
<th>Publicity rights</th>
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<tbody>
<tr>
<td>Name, nickname, likeness, biography, voice and identity.</td>
<td></td>
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</table>

<table>
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<tr>
<th>Method Acquired:</th>
<th>Varies by state. In most states publicity rights are automatic, but some require actual use of rights in commerce.</th>
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<tr>
<th>Term:</th>
<th>Throughout lifespan of person in all states where recognized.</th>
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<tbody>
<tr>
<td>States differ on length of protection after death.</td>
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<tr>
<th>Time Needed to Acquire:</th>
<th>No waiting period.</th>
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<tr>
<th>Renewals:</th>
<th>Not applicable.</th>
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<tr>
<th>Federal Government Office and Website:</th>
<th>None (some similar protection under trademark law).</th>
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<tbody>
<tr>
<td>State law protection only.</td>
<td></td>
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</table>

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<tr>
<th>Applicable Law:</th>
<th>Examples of state law:</th>
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<table>
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<tr>
<th>Transfer:</th>
<th>Owner of publicity rights may license use; licenses may be transferable.</th>
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<table>
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<tr>
<th>Property Excluded from Protection:</th>
<th>Does not extend to non-commercial use of name, likeness, etc.</th>
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<tbody>
<tr>
<td>One cannot stop news sources or unauthorized biographies, etc.</td>
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B. Publicity Rights Explained.

Perhaps the least understood intellectual property doctrine is the broad category of state laws and federal trademark practice that weaves together to make up the law of publicity in the United States. Despite this highly chaotic body of law, the practice of licensing publicity rights is quite straightforward and very important for the entrepreneur. This chapter provides a comprehensive summary of the major concepts of publicity rights. Because the law is based on the laws of individual states, it is subject to significant variation from location to location. Nonetheless, a good understanding of the law is sufficient for most businesses to work around the legal gaps and derive the economic opportunities available to the entrepreneurs and celebrities alike.

The law on publicity rights owes its origins to a theory first identified by Samuel Warren and Louis Brandeis in 1890.55 In their seminal article, they explained that an individual's protection of person and property “is a principle as old as the common law; but it has been found necessary from time to time to define anew the exact nature and extent of such protection. Political, social, and

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economic changes entail the recognition of new rights, and the common law, in its eternal youth, grows to meet the new demands of society.\textsuperscript{56}

Although there were some historical discussions that suggested the property interest in one's identity could only be found if the person seeking protection had used his or her identity in commerce – analogous to trademark law, this notion has not taken hold to define most state laws. Instead, any person has a publicity right in his or her name, whether famous or not. Nonetheless, the value of publicity rights rests in their marketability. Referring to the owner of publicity rights as a “celebrity” provides a convenient way to distinguish the rights licensors from the entrepreneurs who are typically the licensee of these rights. Of course, some famous entrepreneurs such as Spago's Wolfgang Puck have merged the two, creating brand value in their own names instead of having to license the names of famous people to promote their business.

1. **Subject matter of publicity rights.**

At its heart, the right of publicity provides simple legal protection. “The right of publicity is simply the right of every person to control the commercial use of his or her identity.”\textsuperscript{57} The Restatement (Third) of Unfair Competition provides one of the simpler summaries of the law. “One who appropriates the commercial value of a person’s identity by using without consent the person’s name, likeness, or other indicia of identity for purposes of trade is subject to liability….”\textsuperscript{58}

The concept of identity includes name, voice, signature, photograph, or likeness. It typically extends to nicknames and associated catch phrases. For example, Johnny Carson was protected from another company using “here’s Johnny” to sell its products (portable toilets).

Properly understood, the exclusive property interests protected by publicity rights only apply to the commercial use of the celebrity’s identity and do not inhibit press or noncommercial use of the name or likeness. The scope of commercial use, however, is perhaps the most controversial aspect of publicity rights. Critics of publicity rights raise concerns that publicity rights unduly infringe on the free speech rights of the public. To avoid this result, publicity rights generally do not restrict noncommercial uses of a celebrity’s identity. Commercial use is one in which a good or service is sold, not an editorial or communicative service. Food, consumer electronics, automobiles and the vast majority of products are commercial goods.

The items which should be exempt from the commercial products category are those which are editorial or communicative in nature. Newspapers, television shows, movies, music, books and theater are in a very broad category of editorial or communicative services. It should be noted that a newspaper such as the *New York Times* is still sold in a tangible form for a profit. Neither the tangible nature of the newspaper nor the for-profit motive of the business eliminates its communicative role. A newspaper is free to print photographs of individuals without their permission because a free press is of much higher societal value than the property rights associated with publicity rights, and this societal value is incorporated into the First Amendment of the U.S. Constitution.

Various states grapple to make the distinction between commercial products and communicative products or services. California law, for example, exempts newspapers and others from the restrictions of publicity rights by providing that “a use of a name, voice, signature,
photograph, or likeness in connection with any news, public affairs, or sports broadcast or account, or any political campaign, shall not constitute a use for which consent is required ...."  

The law also explains that the commercial nature of a work is a question of fact.

Generally speaking, newspapers, television news, television comedy shows, original painting as well as limited edition lithographs and broadcasts of sporting events will not be considered commercial. Posters, coffee-mugs and memorabilia will generally fall into the commercial category.

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**Sidebar – The commercial nature of tee-shirts.**

Tee-shirts are a unique case in the debate over commercial versus communicative product. Some tee-shirts are sold as memorabilia, and therefore will be commercial, while other tee-shirts are highly editorial in their expression. In 2001, the California Supreme Court took up this debate regarding Gary Saderup’s drawings of the Three Stooges on tee-shirts as well as lithographs without permission of the assignee of the publicity rights.  

The court grappled with the meaning of the First Amendment in the context of the Three Stooges tee-shirt debate:

But having recognized the high degree of First Amendment protection for noncommercial speech about celebrities, we need not conclude that all expression that trenches on the right of publicity receives such protection. The right of publicity, like copyright, protects a form of intellectual property that society deems to have some social utility. “Often considerable money, time and energy are needed to develop one’s prominence in a particular field. Years of labor may be required before one’s skill, reputation, notoriety or virtues are sufficiently developed to permit an economic return through some medium of commercial promotion. For some, the investment may eventually create considerable commercial value in one’s identity.”

After considerable analysis, the court came to the self-evident conclusion that the tee-shirts were unauthorized memorabilia which violated the publicity rights owned by the heirs and assignees of the Three Stooges. The practical rule which flows from these court decisions is that parody or offensive tee-shirts are communicative while respectful tee-shirts are commercial. It is hard to imagine, however, that courts and legislatures are willing to adopt the “offensive tee-shirt rule,” so they will continue to use much longer analysis to achieve this same result.

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2. *Unfair competition under the Lanham Act for rights of publicity.*

Section 43(a) of the Lanham Act provides a general statement of liability for using any name or mark in a manner likely to cause consumer confusion. The statute provides:

Any person who, on or in connection with any goods or services ... uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, ... shall be liable in a civil action by any person who

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59 CAL. CIV. CODE. § 3344(d) (Deerings 2002).


61 Id. at 399 quoting Lugosi v. Universal Pictures, 25 Cal. 3d 813, 834 (1979) (Bird, dissenting).
believes that he or she is or is likely to be damaged by such act.62

The recently revised statute specifically includes the term “name,” reinforcing Congress’
intent to allow an individual to protect her name from commercial use without her consent. Use of a
celebrity’s name on a commercial product is likely to cause confusion with the public because it
states or implies sponsorship or approval of the unauthorized user’s goods or services. In this way,
§43(a) covers a broad range of publicity rights claims.

The largest distinction between §43(a) and publicity rights is that a state law publicity claim
does require proof of any misleading conduct or likelihood of confusion. The legal claims
complement each other because each has a slightly different set of allegations. If a celebrity can
establish both the unauthorized use of the identity and a likelihood of confusion regarding that use
among the public, then the celebrity can choose to bring an action in state or federal court. The state
court action on publicity rights would otherwise require less evidence to prove and may therefore be
strategically preferable.

Lanham Act claims are so common for celebrity cases that courts have adopted a set of
factors to determine the likelihood of confusion specifically for these types of claims. The eight
factors are as follows:

1. The level of recognition that the plaintiff has among the segment of the society
   for whom the defendant’s product is intended;
2. The relatedness of the fame or success of the plaintiff to the defendant’s
   product;
3. The similarity of the likeness used by the defendant to the actual plaintiff;
4. Evidence of actual confusion;
5. Marketing channels used;
6. Likely degree of purchaser care;
7. Defendant’s intent on selecting the plaintiff; and
8. Likelihood of expansion of the product lines.

Although these are all factors that are appropriate for consideration in determining
the likelihood of confusion, they are not necessarily of equal importance, nor do they
necessarily apply to every case.63

These factors parallel the likelihood of confusion factors for other trademarks, but they
focus on the fame of the plaintiff and the relationship of the fame to the defendant’s product. At
least with regard to the famous plaintiff’s complaint about the misuse of her identity for the false
endorsement of products, federal protection remains available under this law.

3. Matters not protected by publicity rights.

Publicity rights are highly circumscribed by public policy concerns for free speech. For
example, the subjects of unflattering biographies have tried to claim that the books, the book covers,
or the book marketing campaigns violate their publicity rights. These attempts to stifle unflattering
biographies generally fail. Biographies are inherently communicative, and courts are quite mindful of
the First Amendment implications of stopping the publication of a book merely because it is
unflattering. If the book is sufficiently misleading as to be libelous, then the book can properly be

63 Downing v. Abercrombie & Fitch, 265 F.3d 994, 1008 (9th Cir. 2001).
stopped under that legal rule, but the law of libel is carefully structured to take First Amendment considerations into account.64

Because news reporting and other editorial activities are typically outside of the definition of commerce, publicity rights do not affect news, commentary, criticism or other editorial uses of one’s identity. Similarly, factual use of one’s name cannot be used as a bar to commercial activity. While theoretically every software company should insist on obtaining a release to list its engineers’ names in the programming credits, the industry custom of including these credits may create an implied license to use the names. Under this implied license, the company can reasonably expect that everyone who worked on the project has consented to have their name be listed in the credits. Had an engineer instructed the employer not to use her name or identity, however, the company could no longer rely on this implied license for listing that person’s name, and it would be liable for inclusion of her name in the credits if it ignored her instructions.

Finally, there remains an inherent limitation because names are not unique, even among celebrities. Michael Jackson refers to both the internationally famous youngest brother of the family music group and a nationally famous radio host. Janet Jackson refers to both Michael’s equally famous sister and a highly respected professor at Washburn University School of Law. Just as with the trademark laws of surnames, the laws involving publicity rights do not give a celebrity an exclusive right to his or her name to the exclusion of others with the same name.

4. Relationship between publicity and copyright.

Copyright and publicity rights do not generally overlap. “Use in commerce” is an element of publicity rights that does not apply to copyright, so the two laws are distinct. As a result, federal copyright is rarely held to preempt state privacy or publicity law. In the most common example, a photographer is the copyright holder of the picture he takes, while the person photographed has no property interest in either the physical photograph or the copyright of the photograph. The photographer, however, cannot use his photograph on a product or service without the permission of the person photographed. The photographer can reproduce and sell an unlimited number of copies of the photograph, but if the photographer uses the picture to sell a bag of flour or a box of screws, the person in the photograph has the property interest in her image.

Publicity rights also have a very strange relationship with copyright, particularly in the context of motion picture and television production. Actors become famous for portraying characters, but the actors have no direct ownership interest in those characters. The actors begin to develop a publicity interest not just in their own identity, but in the identity of the copyrighted character owned by the motion picture or television studio.

To address this problem, Hollywood union agreements have contract terms in the standard union agreements that specifically provide that the film producers receive the publicity rights of the actors in order to create and distribute the film. The actors, in turn, retain their publicity rights for the purpose of commercial exploitation of goods other than the film and its potential sequels or remakes. While this is not theoretically necessary, the law of publicity rights has evolved awkwardly over time, so the industry has come together to clarify its policies using contracts and collectively bargained union agreements.

If the film company wants to use the actual likeness of an actor to sell action figures, then the actor must agree to enter into a new agreement with the producer – often with significant compensation for the actor. Often, the film producer will forego the actor’s consent by giving the

toys different faces than the actors in the movies. When Paramount Television, the producer of the hit television show *Cheers*, decided to open a series of bars modeled after the set of the show, it could not agree to terms with the actors playing Cliff and Norm. The bars were opened with animatronic mannequins that looked only vaguely like the actors playing the roles. But in the minds of the public, the actors were so closely linked with the roles of the characters that the court found there could still be a likelihood of confusion, despite the attempts to make the dolls look different than the actors.\(^6\)

As the *Cheers* dispute illustrates, copyright and publicity rights cover very different legal interests. The copyright in the television show covers each episode. The content of the television episode should be deemed communicative and therefore only the copyright holder has a property interest in each episode of the television show. Because the scope of commercial use is somewhat unsettled, contractual agreements make this outcome part of the arrangement between producer and actor.

If the copyright holder of a television show selects a photograph of the show’s cast for the advertising posters and cover of the television series DVDs, only the copyright holder has a property interest in those photographs because communicative nature of the television show extends to the marketing of that content. The actors depicted in the photograph generally will not have a claim under state rights of publicity. To reinforce this result, however, contracts are used to reinforce this understanding between the parties.

If, however, the copyright holder uses the same cast photograph used on the DVD for a lunch box, the persons depicted in the photograph have a property interest in their images for that product. The lunch box is a commercial product, and the publicity right is fully realized only when the photograph is used in a commercial manner. State court decisions explain the outcomes of their cases differently, but the most rational and consistent explanation for the various theories applied by state courts centers on the distinction between the nature of the product. More importantly, if an entrepreneur adopts this set of rules, the company is likely to avoid most publicity rights disputes and maximize the opportunity to use publicity rights to help promote its products.

5. **Other limitations on publicity rights – First Amendment and quasi fair use.**

Publicity rights serve as one of the few recognized limitations on free speech in the U.S. A person’s right to control his identity is directly at odds with the right of another person to speak or print the identity of that person. As a result, courts struggle to find an appropriate balance between the constitutional rights of the speakers and the innate rights of the individual.

For example, when Cardtoons, L.C. began selling parody major league baseball trading cards, the players objected. Like the Wacky Packages from a generation earlier, these cards served to poke fun and parody the increasingly commercial national pastime. Trading cards are a commercial product, so the only basis for denying the Major League Baseball Players Association’s requested injunction to stop the sale of the cards was fair use or First Amendment limitations on their claim.

Cardtoons’ parody trading cards receive full protection under the First Amendment. The cards provide social commentary on public figures, major league baseball players, who are involved in a significant commercial enterprise, major league baseball. While not core political speech ... this type of commentary on an important

\(^6\) Wendt v. Host Int’l, Inc., 125 F.3d 806 (9th Cir. 1997).
The Cardtoons court found that because the Oklahoma statute did not allow for a fair use exception, it could not infer one from other laws such as copyright or trademark. Without a fair use exception to state publicity law, the court instead limited the application of the state publicity laws so that the laws were consistent with First Amendment protections of speech. By limiting the law, it provided Cardtoons with legal protection to continue selling its parody baseball cards.

Despite the refusal of some courts to imply fair use when it is not provided by statute, many courts recognize that fair use was a court-created doctrine for both copyright and trademark, so there is no significant barrier to the courts implying fair use into cases and statutes involving publicity rights. As a result, the law of publicity rights is beginning to develop its own form of fair use.

Recently, the Court of Appeals for the Sixth Circuit attempted to balance the tension between free speech and publicity rights involving a series of lithographs entitled “Masters of Augusta” depicting Tiger Woods and other Masters champions. The court explained “[t]here is an inherent tension between the right of publicity and the right of freedom of expression under the First Amendment. This tension becomes particularly acute when the person seeking to enforce the right is a famous actor, athlete, politician, or otherwise famous person whose exploits, activities, accomplishments, and personal life are subject to constant scrutiny and comment in the public media.”67 The court looked to both First Amendment and copyright fair use analysis to shape its opinion. It relied on a California Supreme Court opinion which suggested the fair use test could be synthesized into whether the “celebrity likeness is one of the ‘raw materials’ from which an original work is synthesized, or whether the depiction or imitation of the celebrity is the very sum and substance of the work in question.”68 After reviewing the First Amendment and fair use issues, it determined that the artist’s use of Tiger Woods and the other famous golfers in the limited edition painting and lithographs was a fair use of their publicity rights.

Courts are recognizing that even commercial products may make fair use of a celebrity’s identity. In some cases, these fair use rights are closely analogous to trademark fair use. For example, competitors of “The Next Grilleration” George Foreman Digital Grill must be able to show the product in a comparative advertisement. To the extent that Mr. Foreman is using his name as a part of the product’s packaging, it must be subject to the same nominative fair use as his coined term “Grilleration.” Similarly, once an authorized use of a person’s identity is associated with a commercial product, then others who are retailing, marketing and refurbishing that product all retain a fair use or collateral use of the person’s identity to the extent that it is necessary to utilize the product. Of course, using the identity cannot be conducted in a manner that is misleading to the public.

Other cases emphasize the copyright aspects of fair use. The California Supreme Court, in particular, has struggled to use the copyright fair use test. It emphasized the importance of the first

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67 ETW Corp. v. Jireh Publ’g, Inc., 332 F.3d 915, 931 (6th Cir. 2003).
68 Id. at 936, quoting Comedy III Prod., Inc. v. Gary Saderup, Inc., 25 Cal. 4th at 406.
factor of copyright’s four-prong analysis, focusing on “whether the new work merely ‘supersede[s]’
the objects’ of the original creation, or instead adds something new, with a further purpose or
different character, altering the first with new expression, meaning, or message; it asks, in other
words, whether and to what extent the new work is ‘transformative.’”\textsuperscript{69} The court also looked to the
effect on the marketplace – “does the marketability and economic value of the challenged work
derive primarily from the fame of the celebrity depicted? If this question is answered in the negative,
then there would generally be no actionable right of publicity.”\textsuperscript{70}

Whether the limitation is First Amendment, trademark fair use, copyright fair use or an
amalgam of the three, the goal remains to find an appropriate balance between the interests of the
person whose identity is being used against another party wishing to use that person’s identity in the
marketplace of ideas or the marketplace of commerce. Because the law remains highly unsettled, all
parties must proceed with a degree of caution.

6. Relation of protection for state-law right.

The publicity rights vary in scope from state to state, including whether the rights are
recognized, the manner in which they are described, the range of identity interests protected and the
term of the publicity rights after death. According to Professor McCarthy, “[t]oday, recognition of
the rights of privacy in some form is nearly unanimous among the states, either at common law or
by statute. Also, at the present time, the right of publicity has been recognized in some form at
common law or by statute by half of the states.”\textsuperscript{71}

With the growth of the Internet and a new blurring of the distinctions between privacy,
publicity and unfair competition, it is likely that the number of states recognizing some type of
protection for their citizens will only increase. When added to the federal unfair competition
protection of §43(a) and the corresponding state unfair competition law, business owners would be
wise to assume that there is some identity ownership in every state.

From a business perspective, the simplest rule is to assume a national distribution of one’s
product or service and to take into account the most protective state’s publicity rights laws when
structuring transactions. The economic differences are modest between highly protective states and
those states that offer little protection. By applying this approach, the business is assured that it will
acquire all the rights necessary to proceed. The celebrity involved is treated as if the publicity rights
are fully vested property rights without regard to the vagaries of local laws, and the transactions can
be better understood by investors and others.

7. Term of publicity rights.

One of the more difficult issues involving publicity rights is the term of the rights.
According to the Professor McCarthy, “a total of 19 states recognize a post mortem right of
publicity: 14 by statute and five by common law.”\textsuperscript{72} Of the states that have addressed the issue by
statute, in Wisconsin, Rhode Island, and Massachusetts, there is no post-mortem right. At the other
extreme, Indiana and Oklahoma provide 100 years of post-mortem protection for publicity rights.

\textsuperscript{69} Comedy III Prod., Inc. v. Gary Saderup, Inc., 25 Cal. 4th at 404 quoting Folsom v. Marsh, 9 F. Cas. 342, 348 (CCD
Mass. 1841) (No. 4,901), in Campbell v. Acuff-Rose Music, Inc. 510 U.S. 569, 579 (1994). Although the court may be
misguided in rejecting the entirety of the fair use analysis in favor of only two prongs, the explanation of that analysis
will be better placed in another publication.

\textsuperscript{70} Id. at 407, 106 Cal. Rptr. 2d at 142, 21 P.3d at 808.


Other states vary within this range. California increased its term to life plus 70 years to match the term of copyright.

The states which have adopted publicity rights through the courts provide even less guidance regarding the existence of post-mortem rights or their duration. Because it is clear that some states reject post-mortem rights while others extend these rights for an entire century, business decisions will either be very local in nature or they will focus on the economic value of rights for living parties with the knowledge that the rights will lose some protection after the death of the celebrity.

8. **Taxonomy of publicity rights usage.**

There are many different points in the creative process where publicity rights may be helpful to producers or publishers of creative materials. Each use and its market should be carefully identified prior to the execution of a license agreement to assure the producer or publisher that the scope of the rights acquired is sufficient.

First, there are products focusing on the identity itself. Autobiographies, biographies, personal websites, fan websites and infomercials typically fall into this category. Docudramas and true-life stories can fall into this category for the persons highlighted by the work. Each of these has content primarily about the celebrity or person featured.

Second, there are products where the celebrity or identity is used to endorse or promote some other product or service. This group may include products bearing celebrity names, infomercials, videogames and websites featuring celebrities, sports-based games featuring celebrity players and the docudramas from the perspective of the minor characters to the story.

Third, there are products where the particular identity is reproduced in a manner incidental to the product. Background photographs that viewers can recognize, names used in song lyrics, personally identifiable data that can be culled from databases, actors’ images when those actors are portraying characters other than themselves (as actors rather than in their role as celebrities). These reflect the most common uses of identity interests, and for these common commercial uses, simple releases are sufficient. In practice, implied consent often suffices, though written documentation always provides greater certainty.

Each of the three categories listed above reflects the relationship of licensed identity to the creation of the product. Such usage can be categorized separately in terms of how the identity interest will be developed by the producer or publisher. It should be treated distinctly from the question regarding what media will be used to reproduce, distribute, or display the final identity interests.

C. **Acquiring Publicity Rights.**

Publicity rights exist for every person involved in the business, whenever a person’s identity is used for commercial purposes. The entrepreneur has publicity rights that must be assigned to the business entity and may be of value as a marketing asset for the company. The company may also wish the assistance of a celebrity to promote the goods or services it markets. For this activity, the company will seek a license from the celebrity as well as some participation by that celebrity to help launch or promote the product.

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1. **General considerations.**

The key provisions of a publicity rights agreement are similar to that of any licensing agreement, but certain provisions are more critical than others. There is no particularly right way to draft these provisions, but each plays a significant role in the legal rights acquired by the company. This is not a comprehensive publicity rights agreement. It focuses on the provisions that make a publicity rights agreement somewhat different from a licensing agreement for trademarks, copyrights, or other interests.

Although states vary on requiring publicity rights to be granted in writing rather than orally or through conduct, a business should never rely on anything less than a signed writing for publicity rights, especially those that might have significant financial implications. States such as New York require a signed writing. In other situations, the inability to document the rights associated with a product will interfere with its manufacture and distribution. A signed contract will clarify a significant number of problems that may arise over time.

Companies should also be careful not to rely on releases for stock photographs without very careful review of the license agreements. At a minimum, the license agreement must specify that the photograph and the person depicted agree to the use of the image in association with the sale of a commercial product or service. The agreement must also provide that the stock photography house will indemnify the company from any loss covered by a breach of its obligation to provide the rights. If the indemnity is limited to the value of the payment for the stock photographs, then the company should not use those photographs in any situation where the economic risk is greater than the small sum paid for the photographs. The stock photographs may be fine for the occasional brochure and other inconsequential uses, but they put more significant advertising campaigns at financial risk.

2. **Protecting the publicity rights of the entrepreneur.**

Publicity rights begin with the rights of the entrepreneur, the inventors or designers and the others involved in launching the start-up business. At the inception of the business, any of the people involved might rise to become the next Steve Jobs or Bill Gates. These rights do not need to be created, but they do need to be acquired by the company.

At the outset of a start-up enterprise, the future is bright and the parties are optimistic. The primary assets of the company are its founders. As part of the initial phase of organization, the company should acquire the right to use the publicity rights of its founders for its commercial endeavors. In the event that the relationship among the parties begins to erode, having acquired the identity interests in advance avoids tensions over continued, factual use of the founders’ names and biographies in the marketing of the start-up company.

3. **Acquisition of celebrity promotion through purchase or licensing.**

The more traditional notions of publicity rights involve agreements between companies and celebrities for the endorsement of products by celebrities. Typically these are negotiated by the celebrity’s agent on his or her behalf. In addition to the financial incentives to participate, celebrities seek to be associated with products that enhance their image, provide them lifestyle opportunities (in the form of products, travel, or contacts), and provide some guaranteed economic stability in their highly volatile and often short careers. Famous television actors often have only one key role during their careers. Association with a quality product or service can keep that person in the public’s eye while they work at finding an opportunity to make lightning strike a second time.
Unfortunately for both celebrities and businesses, most celebrities do not realize the ephemeral nature of fame until it is too late for it to be recovered. They – or their agents – tend to overvalue their services and importance to the companies. Strategies that rely on sharing the risks of the association, known in Hollywood as “back-end” deals, can be used to entice the celebrities to participate at costs reasonable for the company, while having economic rewards sufficient to engage the celebrity’s sense of self worth.

4. Grant of rights – defining the identity rights to be licensed.

The first provision is the grant of the identity rights by the celebrity – the licensor, who is granting the permission to use the name to the business – the licensee. Based on California law, a comprehensive definition of identity rights should include “name, nicknames, likeness, voice, signature, photograph, and biographic information.” The contract clause would then provide as follows:

Licensor hereby grants to Licensee an exclusive right to use the Publicity Rights of Licensor in connection with the manufacture, sale and distribution of the products and services listed on Appendix A to this Agreement. For purposes of this Agreement, Publicity Rights shall include, but not be limited to the name, nicknames, likeness, voice, signature, photograph, and, biographic information of Licensor.

5. Exclusivity.

As listed in the preceding paragraph, the licensor’s publicity rights should be exclusive to the company. The association between the company and the celebrity is not worth nearly as much if the celebrity is simultaneously promoting a competitor’s goods. The paragraph above should be supplemented with a separate provision that specifically states that the licensor will not endorse, promote, or be associated with any products that can be reasonably expected to compete with the products and services promoted under this agreement.

6. Term.

The term of a publicity rights agreement has two potentially different dates. One set of dates covers the dates of use of the celebrity for advertising and promotion of the product. A second set of dates applies to the use of the publicity rights on the product itself or on the packaging. If the identity rights are used on the product or packaging, then all dates should be based on the date of manufacturing, so that once a product is produced, there is no risk that the term will expire and the products will need to be destroyed. The licensor, in contrast, will seek to base the dates on the sales of the products rather than the manufacturing. A typical compromise is to include a sell-off period of an additional six months in which the manufacturer can sell off previously manufactured licensed goods but not create any additional goods. Terms for most publicity rights transactions are short, usually one to three years duration. The vagaries of fame make longer agreements generally unwise for the business licensing the rights.

7. Identification and approvals of products or services.

The list of products and services might be very broad, but more commonly, the association is focused on one or two products at a time. Approval rights by the celebrity licensor may range from trivial to very complex. Some require that overseas manufacturers adopt certification that child labor is not used; others insist on reviewing the quality of the products from time to time throughout manufacturing; all require approval of the name and likeness.

In situations where the celebrity retains approval rights, those rights should be
focused on the development of the product. Other than issues regarding quality 
control, celebrities should be far less involved in controlling the distribution of the 
content once it is created. For example, a professional golfer may be very involved in 
approving the graphic images of a video game and may even demand approval over 
the design of the golf courses used in the game. Nonetheless, it is unlikely that the 
golfer will be involved in the choice of computer platform for which the game is 
optimized or the video-clips featured in the advertising. By separating out the 
creation of content from its distribution, the parties can more appropriately structure 
approval rights for the project.74

8. **Morality clauses.**

A morality clause reminds the parties of the valuable good will owned by the company and 
also requires that the licensor conduct himself in a manner that will not bring disrepute to 
the product. It may prohibit any criminal actions, professional suspensions, voluntary or involuntary 
drug commitments, or any acts of moral turpitude. The strongest of such clauses give the licensing 
business the sole discretion to determine that conduct or news reports of coverage may be damaging 
to the product, so the licensee may terminate the agreement. Such discretion must still be used in 
good faith, while a clause that merely prohibits the licensor from being convicted of a crime does 
little to protect the licensee, given the time it takes to obtain a criminal conviction (particularly if it is 
not finalized until after the appeals).

9. **Payment and royalties.**

Celebrity licensors are typically guaranteed a minimum annual payment. In some cases, there 
is an advance minimum, but more typically, the payments are based on the royalties paid monthly. If 
the monthly payments do not meet the annual guaranteed minimum, then there is an additional 
payment due at the end of the year to make up the difference between the royalties received and the 
minimum guaranteed. The royalty can be based on the revenue earned by the manufacturer, the 
suggested retail price, or the number of units sold. The guaranteed minimums may change from year 
to year as well.

10. **No obligation.**

The corresponding aspect of guaranteed minimum is that it should replace the obligation for 
the company to engage in the sale of the products if it is not commercially reasonable to do so. 
Nonetheless, the contract must specify that the licensee is under no obligation to actually utilize the 
publicity rights, and it is not obligated to manufacture and sell the products in question. The risk of 
selling the goods may be much greater than the guaranteed minimum payment due to the celebrity. 
For example, assume a manufacturer has an agreement with a large retailer such as Target or Wal-
Mart for distribution of 50,000 exercise balls featuring an Olympic gold-medal winning athlete. The 
license agreement guaranteed a minimum royalty of $100,000 and $4.00 per unit sold. If the retailer 
cancels that contract, the obligation to manufacture and find an outlet for those 50,000 exercise balls 
will cost the company $100,000 if it elects not to manufacture, but it could be required to pay 
$200,000 if it is obligated to sell the balls. Since it is unlikely any other retailer needs that volume of 
goods, the company could be stuck with expensive inventory as well. Therefore, it is critical that the 
company specify that it is not obligated to use the licensed rights or to manufacture any products 
under the agreement.

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74 Id.
11. **Promotional services.**

Contracts requiring the celebrity licensor to participate in the promotion of the products or services are a smaller subset of the publicity licensing agreements. Typically, the licensor approves certain photographs in advance and has little to do with the product. In other cases, the celebrity may agree to film infomercials, participate in tours, or otherwise engage in an active promotion of the products. In this situation, the agreement must specify what the performance obligations are for the performer, provide that the licensee is obligated to pay the costs of those appearances, set the manner in which the schedule is to be agreed upon (though typically not the actual schedule) and provide for any additional compensation due for the performer during the performance. If this includes infomercial activities, the person may be required to join a television actors’ union (AFTRA or SAG), and the company must be ready to pay the union minimums and otherwise meet the union obligations for employing the actor in a long-running infomercial.

12. **Spokesman and advertising issues.**

A celebrity-endorsed product requires close attention to the product’s development process. The endorsing celebrity will first want to know precisely what the product is. If the endorsement includes any claims, the celebrity should have confidence those claims are legitimate. The Federal Trade Commission has promulgated guidelines for advertisers to avoid committing unfair and deceptive trade practices (FTC Guides).

> [A]n endorsement means any advertising message (including verbal statements, demonstrations, or depictions of the name, signature, likeness or other identifying personal characteristics of an individual or the name or seal of an organization) which message consumers are likely to believe reflects the opinions, beliefs, findings, or experience of a party other than the sponsoring advertiser.

The ongoing obligations for the endorsement need to reflect honest opinions and experience of the celebrity endorser. This duty may be incorporated into the license agreement, but regardless of the drafting, the company is obligated to meet this test. Repudiation by the endorser will undermine the company’s ability to continue to use that person to market or promote the product. This provision of the license agreement should therefore be phrased as an affirmative duty of the

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76 Id. § 255.0(b).
80 Id.
endorsing party, separate from the identity interests acquired elsewhere in the agreement.

D. Enforcement of Publicity and Privacy Rights.

1. Prima facie case for publicity rights.

Because the law varies somewhat from state to state, there is no standard prima facie case that applies in all states. The following basic elements, however, provide a reasonable checklist for most situations.

(1) Plaintiff is the owner of the publicity interest in her name, likeness or other protected right of publicity.

(2) Defendant reproduced substantially the same name and likeness of plaintiff.

(3) Defendant’s use was a commercial use. And

(4) Defendant’s use was unauthorized.

Although not an element of the prima facie case, in most situations the plaintiff will also allege that (5) Plaintiff suffered economic damage as a result.

The first element is a simple assertion that this is the correct plaintiff. As with copyright and trademark claims, the plaintiff must allege and prove that it is her identity being used. In most states there is no obligation to prove that the plaintiff has made commercial use of the identity, but if the situation is that the identity rights are highly valuable, then that can certainly be added to the first allegation.

The second element again parallels copyright and trademark claims in that there must be actual use of the plaintiff's identity by the defendant for the claim to be actionable. This element is central to every publicity rights case in every jurisdiction.

The third element is that the use is a commercial use. This has no corresponding element in copyright infringement claims, only in trademark claims. As discussed earlier, this is the factual allegation that separates editorial uses from commercial activity. Technically, this is not always stated as an affirmative element to be proven by the plaintiff, but the plaintiff should be prepared to bear the burden of proving that the defendant commercially used her identity. As a practical matter, courts are extremely reluctant to interfere with First Amendment rights, so if the defendant raises a constitutional defense, then the burden shifts to the plaintiff to prove that the use was commercial. Furthermore, as a matter of public policy, businesses should be prepared to suffer a certain amount of negative comment or criticism – even if it comes in the form of Wacky Packages – so they should either be able to establish that the use is commercial or they should not seek legal redress.

The fourth element is a mere recitation that the use was made without permission. This may vary somewhat. If the state in which the lawsuit is filed requires a written release, then the allegation should specify that there is no written release or any other authorization.

2. Other aspects of the publicity claim.

If the plaintiff can establish that his publicity rights were reproduced for commercial purposes without authorization, there is no need to prove it caused economic harm. The damage is presumed from the conduct. Although proof of economic harm is not an element of the claim, it may be helpful, particularly if the damages go beyond the market value of the license agreement to a larger measure of damages.
Similarly, some courts discuss the intent of the defendant in the context of publicity claims. Because both defamation law and trademark law include some requirements of culpability, there seems to be emphasis on the intentional use of the publicity rights. As a practical matter, it may not be too common that a name or likeness is used without knowledge. There may be situations where the authorization was faulty, such as a failure to obtain a signed release instead of an oral release; a photograph approved for one product was accidentally used for a different product; or the wrong photograph was provided by the photographer. While the innocence of these situations may reduce the damages, they should not eliminate culpability.

A manufacturer has an affirmative duty to control the production and distribution of its product, so the failure to police the process of production, distribution and marketing of its product should create the affirmative duty to ensure the accuracy of its use of any publicity rights. Failure to ensure against the unauthorized use of another’s publicity rights is inherently (per se) negligent.

3. **Comparison to the §43(a) prima facie case.**

Section 43(a) of the Lanham Act provides the federal claim for unfair competition. Under this cause of action, the plaintiff must prove that the use of the publicity rights created the likelihood of confusion regarding celebrity. The claim must be designed to stop the defendants from falsely claiming endorsements, affiliation, or sponsorship by the celebrity.

In comparison to the prima facie case for publicity rights, the analogous case for federal unfair competition under §43(a) requires proof of additional elements. The four initial elements must still be met that –

(1) plaintiff is the owner of interest in her name, or other word, term, symbol or device.
(2) Defendant reproduced substantially the same name and likeness of plaintiff.
(3) Defendant's use was a commercial use.
(4) Defendant's use was unauthorized.

The three additional elements are that –

(5) Defendant's use of the name constitutes a false designation of origin for the commercial use.
(6) Defendant’s use of the name is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of plaintiff with defendant, or as to the origin, sponsorship, or approval of plaintiff’s goods, services, or commercial activities by defendant. And
(7) Defendant’s infringement was intentional, willful or deliberate to gain value from the good will associated with plaintiff’s name.

The courts have limited §43(a) to situations involving intentional misconduct, not merely negligent misrepresentation by one company about another company’s goods. As a result, even in cases involving celebrity names, there remains a requirement of intentional misconduct.

For most cases today, any use of a celebrity’s name creates an assumption in the public's mind that the celebrity is associating with that product. The exception would be in the case of a marketing parody, where the celebrity was mocked along with the product. If the content made clear that no association was present, then the key element of §43(a) would be avoided.

4. **Injunctions and remedies.**
Typically the plaintiff in a publicity rights claim will seek an injunction to stop the conduct from continuing. Courts may order injunctions at either the preliminary hearing stage or at the end of the trial on the merits.

Damages may be based on the economic value of the license, but more typically, the plaintiff will seek to establish either that the defendant made windfall profits by using the unauthorized publicity rights or that the use caused damage to the plaintiff’s good will or marketing opportunities. Since the conduct is often willful, plaintiffs can also seek punitive damages.

5. **Violating the publicity rights of others.**

Most commercial enterprises can steer clear of violating the publicity rights of other parties simply by adopting policies requiring written releases for all photographs and names and enforcing this policy.

In contrast, companies involved in the sale of artwork and memorabilia will have a more difficult time assessing each product regarding its commercial or communicative use. For companies that rely on the fair use or First Amendment limitations on publicity rights to manufacture and sell products, it is extremely difficult to know precisely when a celebrity will object to the unauthorized use.

E. **The International Implications of Publicity and Privacy Interests.**

Publicity rights and privacy interests vary much more dramatically from country to country than do the other intellectual property interests. The international treaties generally do not reach these interests except to the extent they are covered by trademark law. Great Britain specifically rejects publicity rights, while Canada does recognize a version of the right.

For international transactions, the preferred strategy is to emphasize the trademark rights associated with the identity interests. Individuals hoping to exploit their names or likenesses should seek federal trademark registration for those rights and utilize the Madrid Protocol to register the trademark in the foreign jurisdictions where protection is sought. This will help provide a better footing for international trade protection and may avoid problems of enforcement in countries which require that the publicity rights be part of the privacy rights afforded to those domiciled or resident within the jurisdiction.

Federal and international trademark registration circumvents the jurisdictional problems of international publicity rights enforcement while reinforcing the economic value of those rights.

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81 Cairns v. Franklin Mint Co., 24 F. Supp. 2d 1013 (C.D. Cal. 1998), aff’d, 216 F.3d 1082 (9th Cir. 1999).
Chapter 15.  Trade Secrets and Trade Secret Law

A. Attributes of Trade Secrets.

<table>
<thead>
<tr>
<th>Subject Matter:</th>
<th>A formula, pattern, compilation, program device, method, technique, or process, that: (i) derives economic value, being generally unknown and (ii) subject to reasonable efforts to maintain the secrecy.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Method Acquired:</td>
<td>Initially, through usage, but maintained only through necessary steps to protect the secret.</td>
</tr>
<tr>
<td>Term:</td>
<td>Indefinite, trade secret will continue so long as secret maintains economic value and secrecy.</td>
</tr>
<tr>
<td>Time Needed to Acquire:</td>
<td>No waiting period.</td>
</tr>
<tr>
<td>Renewals:</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Federal Government Office and Website:</td>
<td>None.</td>
</tr>
<tr>
<td>Transfer:</td>
<td>Fully transferable. Care must be taken not to disclose the information before the transfer is complete.</td>
</tr>
<tr>
<td>Property Excluded from Protection:</td>
<td>Any publicly disclosed information; any information without economic value; and any information independently created.</td>
</tr>
</tbody>
</table>

B. Trade Secret Law Explained.

The last subject of this book’s review of intellectual property focuses on trade secrets. Trade secrets are given too little attention by intellectual property scholars and practitioners while business attorneys and professionals grant them too much credence. They play a significant role in the management of key corporate assets and can be a critical part of a business’s overall intellectual property strategy. Trade secrets have significant practical limitations, however, and should not be the exclusive strategy used to manage intellectual property.

According to the Restatement (Third) of Unfair Competition, “[t] he protection of confidential business information dates at least to Roman law, which afforded relief against a person who induced another’s employee to divulge secrets relating to the master’s commercial affairs.”1 Trade secrets cover employee confidentiality agreements and agreements to safeguard commercial

1 RESTATMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a (1995).
processes and formulas that may lie at the heart of a company’s enterprise.

1. **Subject matter of trade secret protection.**

Trade secrets cover a wide variety of information, including “all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing.” The list is all encompassing, ranging from recipes that could never be copyrighted or patented to inventions that could easily meet the patent requirements of originality, utility and nonobviousness. Inventions, processes and confidential pricing information are common subjects for trade secret protection, as are corporate acquisition targets and product performance data.³

Trade secrets have been defined as “any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”⁴ This definition from the Restatement (Third) of Unfair Competition is accurate, but covers more than the law or prudence should allow. A better definition is found in the Uniform Trade Secrets Act (UTSA).

“Trade secret” means information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means, by other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.⁵

Unlike the first definition, the UTSA recognizes that the economic value of the trade secret derives from the secrecy of the information. The secret recipes relied upon by Kentucky Fried Chicken and Coca-Cola derive their value because these recipes are not available to competitors. Trade secrets are not easily reproduced by the competitors through experimentation, reverse engineering, or other lawful means. Finally, trade secrets are protected by the company which claims the trade secrets by using reasonable efforts to protect those secrets.

The UTSA was originally adopted in 1979 and was substantially revised in 1985. Presently, there are 44 states, plus the District of Columbia and the U.S. Virgin Islands, that have adopted the legislation as state law. New York and Massachusetts both have legislation pending.⁶ As a result, the UTSA definition serves to reflect the general state law across the country. The uniform law serves to clarify and standardize the law, but some trade secret protection has existed in most states’ common law for a very long time.

Trade secrets are not property interests. Instead, a better way to characterize the law governing trade secrets is to treat the rule as a statement regarding the business norms of

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³ The Illinois definition of information, for example, provides “information, including but not limited to, technical or non-technical data, a formula, pattern, compilation, program, device, method, technique, drawing, process, financial data, or list of actual or potential customers or suppliers …. “ Illinois Trade Secrets Act, 765 ILL. COMP. STAT. 1065/2(d) (West 1995).
⁵ UNIFORM TRADE SECRETS ACT § 1(4) (1985).
competition. A company has a duty not to steal the secrets of its competitors if those competitors have undertaken the steps necessary to protect their secrets. Like an academic honor code, it creates an expectation regarding the conduct that is permitted. Companies – like students – can do independent research to learn the answers on a test, but they will be sanctioned if they steal the test from the teacher. The company – like the teacher – must take reasonable steps to safeguard the test from inadvertent disclosure or extreme temptation.

Trade secrets serve to enforce an ethical business practice. It creates an obligation to conduct one’s business in a good faith manner. The most important aspect of this ethical responsibility arises in the context of hiring. Employers have an obligation not to use job opportunities as a vehicle to steal a competitor’s corporate files, trade secrets, or other documents and data. While the rule does not directly apply to hiring away the experience and expertise, the rule definitely covers the data and hard information that an employee carries in his briefcase rather than his head.

Trade secrets also reflect one of the key themes of the Own It method, that exclusivity creates value. Here, exclusivity in the form of secrecy, is protected to the extent that exclusivity has an ongoing economic benefit. As a result, trade secrets are a key component of developing business knowledge for the Own It based business. Since trade secrets exist only if a company takes reasonable steps to protect the unique, internal information it creates, only those companies that follow appropriate business practices can acquire and maintain trade secrets.

**Sidebar – Noncompetition agreements.**

Noncompetition agreements are often used in conjunction with trade secret protection, but they cover a different aspect of the company’s trade secrets. As discussed throughout this chapter, a trade secret exists only if it remains confidential and has economic value to the business. However, the open markets of American business and the opportunity employees have to seek new employment and to compete with their former employers creates tension with the goal of protecting trade secrets.

Absent any other agreements, an employee is free to leave her job and open a company across the street from the former employer. An employee’s duty to her employer ends when the employment terminates, and for an employee who is not an officer or director, the law even protects the person if she begins making plans and actively prepares for the day of departure. So long as the employee has not diverted the employer’s customers or competed directly while still employed, the employee has not violated her duties to the employer.

Business owners struggle with these policies. Though sound public policy, they put employers at risk of losing valuable employees at critical times. Additionally, these policies do not protect the knowledge learned by these critical employees. This knowledge may be extremely valuable. Nothing committed to memory can be controlled by the employer. Good employees know the customers they call on, they understand the processes they use in manufacturing and they recognize the innovations their business has put to use to gain market share and commercial advantage.

Since the law values the freedom to contract nearly as much as the freedom to compete, state employment laws carefully balance the ability of employer and employees to enter into contracts that limit the employee’s ability to compete with the employer following employment. These noncompetition agreements are carefully limited by state law, and the scope of permitted provisions varies widely from state to state.

Noncompetition contracts provide payment or other consideration to the employee in
exchange for an agreement not to compete with the company for a specified period of time and in a
specified geographic range. These contracts also add a second set of confidentiality agreements,
extending the time during which an employee is obligated not to divulge any trade secrets. The
difference between the noncompetition provisions and the confidentiality provisions is that the
noncompetition provisions can extend to the employees craft and knowledge. By prohibiting the
employee from using the skills acquired and knowledge learned on the job, the noncompetition
provisions often effectively bar the person from meaningful employment.

Because the noncompetition provisions have such a detrimental effect on the ability of the
former employee to gain meaningful work, courts look at four aspects of these contracts quite
carefully. First, they look to see whether the agreement was really part of a meaningful financial
transaction, or whether the employer forced it on the employee after employment began, when the
employee had no ability to bargain over the contract. If there was no payment or value given to the
employee, then the contract may not be enforceable.

Second, the court looks at the scope of the prohibition. The narrower the prohibition, the
more likely the court will find that it is acceptable. An optical engineer’s noncompetition agreement
prohibiting her from working for the direct competitor of the former employer will be viewed more
favorably than if her contract clause limits her from serving as any type of engineer in any company.

The third and fourth factors follow the same pattern. Courts will look at the period of the
prohibition and the geographic scope to be sure that the length and physical range are both
sufficiently narrow so as to allow the employee some reasonable employment. If the noncompetition
agreement is too broad, then it will not be enforced.

Noncompetition agreements are looked on more favorably and with greater latitude for
prohibitions against the owners of companies who enter into noncompetition as part of the sale of
their company. The agreement often prohibits the owner from going back into competition with the
person to whom the owner just sold her business. These types of noncompetition agreements
should be enforced, and courts recognize the social benefit and good faith aspect of such a
prohibition.

For highly compensated individuals, the best way to maximize the noncompetition provision
is to make much of the agreement an ongoing obligation. If the person is receiving a weekly or
monthly payment, then the relationship is a continuing one, and employment law always enforces
the rights of an employer to limit disclosures by current employees. Many so-called consulting
agreements are actually forms of noncompetition agreements in which the relationship is transmuted
into a continuing one in an effort to limit the ability of the consultant to compete with the former
employer.

2. **Trade secrets must have value because they are secret.**

For trade secrets to rise to a level warranting protection, they must have some minimal
economic value. Most client data, business processes and price lists have economic value. Business
know-how that reduces production costs or improves market competitiveness would have economic
value to competitors, so these types of secrets are protected under the law.

Trade secrets, however, differ from merely confidential or private data. Health and
educational records, for example, are required by federal law to be kept confidential and the privacy
of the personal information protected. A student’s academic transcript, therefore, is a confidential
record, but it is not a trade secret because it has no commercial use or value to any competitor.

3. **Creating the duty to keep the secret.**

Economically valuable information does not automatically become secret. The information
can only become a trade secret if the initial owner of the information secures an obligation from others to maintain the secret. Typically, this obligation would come from a contractual agreement or be implied by the legal consequence of the relationship. For example, employees owe a duty of loyalty to their employers, so the law will imply a duty not to divulge a trade secret whether or not there is a written employment agreement or written policy requiring this duty. The duty of loyalty bars an employee from using company assets for personal gain, so the sale or misuse of trade secrets would be prohibited under this aspect of the duty of loyalty as well. To the extent the employee learned client information or other aspects of the business, however, an employer cannot stop an employee from seeking new employment, even when that employee has client information or other aspects of the business stored in her memory.

While the duty of loyalty extends to all employees of the company, the scope of the duty is broader for officers and directors. For closely held business limited liability companies and other entities, these duties of good faith and loyalty will generally be implied by law, though the law may allow the entities more flexibility in increasing or decreasing the obligation under these duties.

Some courts imply the duty of good faith and fair dealing in these situations as well. Generally, trade secrets obtained as part of an attempted businesses purchase or merger are protected by the law even if the transaction does not take place. Of course, such implied duties are not as easily relied upon as express, written obligations. In the case of both merger talks and employment relations, companies are much better off with written agreements regarding the duty not to disclose information. See Appendix B for a sample agreement.

Absent the creation of a duty to protect the valuable information, a trade secret does not exist. As a result, the disclosure of a valuable trade secret before any agreement has been made between the parties renders the information fully disclosed and beyond the scope of trade secret protection. Unsolicited disclosure generally destroys the opportunity to create trade secret protection. Particularly if the trade secret is of limited originality, the duty to protect the trade secret by non-employees must be expressly made in advance of the disclosure.

4. **Reasonable efforts to maintain secrecy.**

A second element of claiming trade secret protection is the company’s responsibility to undertake reasonable steps to protect the information. Companies should specify the types of records that it treats as trade secrets in its employment contracts, confidentiality agreements and employee handbooks. If the company endeavors to protect manufacturing processes, then it must not open its process to the general public, but rather limit physical access. “Employee Only” areas of a company must actually be limited to employees with exceptions made only for carefully screened guests. All too often, employees pay little regard to posted signs limiting access. Corporate espionage agents and disgruntled former employees can often walk unchallenged through the heart of secure facilities.

Documents such as price lists, processes, new product specifications and other reports should be marked as confidential – particularly if it is not obvious on the face of the document that the company would treat it as confidential information. File cabinets should not be accessible by employees without clearance to those files, which should be locked or restricted. Similarly, computer networks should be password protected and segregated so employees have access to the information they are likely to need. Password protocols should follow professional security guidelines. For example, companies should enforce policies so that computer passwords are changed regularly, use a combination of letters and numbers, are not dictionary words, and are not taped to the computer monitor.
The secret can sometimes be widely shared. The number of individuals who share the trade secret is far less important than the fact that each person with access to the trade secret has the same affirmative duty not to disclose the information. In this way, potentially thousands of employees could know the precise chemical composition and production process for a secret manufacturing process, but as long as each of those employees was subject to the trade secret confidentiality obligations and knew that the process and chemicals were protected trade secrets, then the process would be protected. Of course, as a practical matter, the larger the number of people sharing a secret, the less likely the secret will be properly kept. Common sense is always a better source of protection than legal doctrine.

The company seeking to protect trade secrets must also address obvious risks to breakdowns in confidentiality. Confidential documents and trade secrets should be shredded rather than thrown into waste cans and recycling tubs. Once trash has been taken to the curb, the original owner typically loses its rights to the garbage, and no one has the right to stop others from investigating the information in the garbage. The corporate practice of “dumpster diving” has developed something of a cachet precisely because it is beyond the rules of trade secret protection or criminal conduct. What one finds in the garbage can be kept and used to commercial advantage.

Another obvious breach of confidentiality may come through the use of temporary employees and independent contractors. These individuals are not necessarily subject to the personnel handbooks, so contracts must be signed by each temporary employee or independent contractor at the start of employment, obligating that person to be bound by the same confidentiality provisions.

The protection of the trade secrets need only be reasonable, not absolute. Hidden wall safes, sleeping gas and laser beams are not usually required. If a company has controls on its doors to keep uninvited guests out of the facility, then plans stolen through the use of helicopters and telephoto lenses can be recovered and remedies sought (if the victim can prove the thefts). The courts do not expect every company to be in the anti-espionage business, and the law will punish those companies that are caught taking extraordinary measures to steal from their competitors.

5. Independent disclosure.

Perhaps one of the more frustrating ways in which trade secrets are destroyed is through independent disclosure. Inventions and ideas tend to develop independently from unrelated sources. If a person without access to the trade secret makes that information generally known, then the information is no longer secret and cannot be protected. Patent applications may publish inventions that had been in use by competitors and protected as trade secrets. The patent application destroys the value of that trade secret, and the trade secret can then be disclosed to the patent examiner to show the “prior art” regarding the claims in the patent. Trade publications will often publish comparative corporate data that was carefully gathered and highly valuable to the company that collected the data. Once the independently authored report is out, however, the secret nature of the private report is destroyed.

In the arena of trademarks, companies are becoming increasingly savvy. Companies can track trademark filings for future products and services of competing companies. The disclosures made in the trademark registration process are public documents. Any information disclosed during the trademark application is no longer protected by trade secret. Similarly, information contained in a patent application loses its confidentiality.

In the area of computer software and software-based products, the need to share software
source code may result in the disclosure of business plans that can be gleaned from the coding process. For example, Apple computer was first reported to be nearing the launch of its iTunes cell phone based on its release of interoperability code for iTunes music sites that included commands referencing cell phone features.

Another form of independent discovery is through reverse engineering. Reverse engineering, the process of deconstructing a product, computer chip, or software, is a lawfully protected activity. Absent a contractual agreement not to reverse engineer, anyone can undertake to learn the secrets of a product by tearing it apart. The law considers reverse engineering beneficial to society, so it does not breach any good faith ethical norms to engage in this practice.

Because nondisclosure agreements rely on contractual obligations instead of trade secret law to limit the use of confidential information, it is important that independent disclosure be incorporated as a reason to terminate the nondisclosure agreement. While the risk may be small, no company wants to find itself as the only entity contractually precluded from information that is now freely available to the public. A sample nondisclosure agreement is provided in Appendix B.

6. **Relationship to other intellectual property laws.**

For trade secret protection to apply, the information must be secret. This axiomatic rule significantly limits the scope of trade secret protection. Information which is publicly available cannot be protected by trade secrets. For example, all information disclosed as part of a federal patent application is released publicly within eighteen months of the application or upon the grant of the patent. This information is therefore public and cannot be protected by trade secret laws.

Trade secrets and patents are generally considered alternative solutions to the problem of protecting new processes and other inventions that are not self-disclosing. The patent provides a public bargain in which the twenty years of patent protection is provided to the inventor in exchange for full disclosure of the patent. The public receives free, unlimited access to the invention when the patent expires, but it also gets immediate access to the science and techniques that went into the patent. Often, the patent provides vital information to other inventors about inventions and process unrelated to the patent holder’s claim.

In contrast, trade secrets must be closely guarded. If the inventor is successful in guarding the secret, it can last indefinitely. The public may benefit from the invention, but it does not ever gain access to the science and techniques that gave rise to the invention. In his science fiction novel, *Friday*, noted author Robert Heinlein postulated that the richest company in the world developed its power because the inventor ignored advice to patent his inventions and instead began to carefully select loyal employees to launch his company.

The law does not favor patents or trade secrets. In recent years, it has expanded access to both forms of protection. In addition, many economically valuable trade secrets are not ever patentable, so the tension exists only for that subset of inventions that can reasonably be protected by either patent or trade secret.

The tension with copyright is less severe. Copyright does not extend to ideas, methods or processes. “In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.” Copyright may cover other forms of trade secrets, however, so some modest overlap exists. Copyright law does not

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require that works be published or registered, so the easiest way to avoid tension between copyright and trade secret is not to register the work.

There are many documents which contain trade secrets, such as secure standardized academic tests (e.g. SAT, ACT, LSAT, etc.). For these and other copyrightable documents that contain trade secrets, the Copyright Office has provided special deposit regulations to protect them.\(^8\) For software, in particular, there are often trade secrets in the coding or other processes which are not available to the public as users of the software, but would be available to the copyright office when the source code for the software is deposited under the statutory requirements. To avoid this disclosure, the copyright office allows the source code to be deposited with the portions blacked out that contain the trade secrets, or otherwise avoid the disclosure of the trade secrets.\(^9\)

Trademarks have little or nothing to do with trade secrets. Except for those rare situations in which the existence of the trade secret is incorporated into the trademarks and branding of a company, such as with Kentucky Fried Chicken’s secret recipe, the two disciplines do not overlap. Having said that, however, the strategies behind trademarking and branding are sometimes the most valuable trade secrets guarded by a company. This is particularly true since trademark priority is given to the company that first uses it in commerce. Trade secrets serve to protect the strategies that inform the brand development and maximize the trademarks.

7. **Federal trade secret protection and the Economic Espionage Act.**

In 1996, Congress enacted the Economic Espionage Act to protect U.S. companies because “nearly $ 24 billion of corporate property was being stolen each year.”\(^10\) The first section of the law focused on international espionage, particularly that covering “evidence of foreign government sponsored or coordinated intelligence activity.”\(^11\)

Section 2 of the statute created a federal trade secret act with primarily criminal provisions. The law criminalizes the theft of trade secrets or conspiracy to commit theft of trade secrets, or receipt of stolen trade secrets. The federal law, however, has some requirements that are quite different than the UTSA. The trade secret must (1) be related to a product placed in interstate or foreign commerce, (2) have an economic benefit to the thief, recipient or anyone other than the lawful owner and (3) know the theft will injure the owner of the trade secret.\(^12\)

\(^11\) Id. (citations omitted).
\(^12\) 18 U.S.C. § 1832(a) (2000). The full text of the Trade Secret Protection Provision of the Economic Espionage Act is as follow:

(a) Whoever, with intent to convert a trade secret, that is related to or included in a product that is produced for or placed in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret, knowingly--

(1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains such information;

(2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys such information;
In addition to these additional elements of proof, the law is primarily limited to federal criminal prosecutions. There is a civil provision, but this provision merely allows the attorney general of the state to bring civil claims to stop or enjoin theft of trade secrets. The law does not provide an opportunity for the injured company to seek recovery in federal court. As a result, it provides only a modest additional tool for trade secret protection for private companies.

8. **Relationship to federal computer anti-fraud statute.**

In the highly complex language of the Computer Fraud and Abuse Act (CFAA), a federal crime and civil claim was created for the violation of a person’s or company’s computer. The law has been amended since first written in 1984, to expand its scope to any computer theft or damage involving interstate commerce.

While trade secrets are not necessarily kept on computers, and the theft of trade secrets does not necessarily involve computers, the ubiquity of computers makes this aspect of information theft a new federal crime and tort. Increasingly, it is hard to steal trade secrets without copying some of the information from the computers of the targeted company.

Under the statute, “whoever . . . intentionally accesses a computer without authorization or exceeds authorized access, and thereby obtains . . . information from any protected computer . . . if the conduct involved an interstate or foreign communication . . . shall be punished [with fines or prison or both and] . . . any person who suffers damage or loss by reason of a violation of this section may maintain a civil action against the violator to obtain compensatory damages and injunctive relief or other equitable relief.”

The law was designed to stop computer hackers from breaking into computers to steal information or destroy the computer systems. But the law goes much further. It applies to anyone who accesses the computer without authorization or who exceeds authorization. In the definitions of the law, “the term ‘exceeds authorized access’ means to access a computer with authorization and to use such access to obtain or alter information in the computer that the accessor is not entitled so to obtain or alter.” This means that when an employee or other person obtains information from the computer to which that person is not entitled, the person has violated the CFAA and may be federally criminally and civilly liable.

This interpretation of the statute has already been applied in the context of trade secret thefts by former employees. In a dispute between Shurgard Storage Centers, Inc. and Safeguard Self Storage, Inc., rival self-storage companies, the defendant company began hiring senior employees from its competitor to obtain trade secret information about the market strategies, store locations, and expansion plans. The court upheld the use of CFAA against the former employees for the use

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(3) receives, buys, or possesses such information, knowing the same to have been stolen or appropriated, obtained, or converted without authorization;

(4) attempts to commit any offense described in paragraphs (1) through (3); or

(5) conspires with one or more other persons to commit any offense described in paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy, shall, except as provided in subsection (b), be fined under this title or imprisoned not more than 10 years, or both.

(b) Any organization that commits any offense described in subsection (a) shall be fined not more than $5,000,000.

Id. § 1030(a)(2)(C) § 1030(g).

Id. § 1030(c)(2)(B).
of the computer to steal the trade secrets. Charles Schwab has used the CFAA to sue both a former employee and the company which hired the former employee away. In Charles Schwab’s case, the employee brought a laptop into the company with a high speed DVD burner and began copying confidential analyses and reports.

Unlike the Economic Espionage Act, the CFAA has grown in recent years to a federal trade secret protection tool for interstate theft of trade secrets or other information stored on computers. Some cases have also been quite liberal in determining unauthorized access or access which exceeds authority. In most situations the employees have signed confidentiality agreements or company personnel manuals which limit access to the company computers using language such as the following: “Employees are authorized to use the Company’s equipment, computers and computer network to the extent necessary to perform the Employee’s duties on behalf of the company and for no other purposes.”

For companies that are more lax, however, the court in Shurgard applied agency doctrine to limit authorization. As the court explained, “the authority of an agent terminates if, without knowledge of the principal, he acquires adverse interests or if he is otherwise guilty of a serious breach of loyalty to the principal.” Under this rule, the authority of the plaintiff’s former employees ended when they allegedly became agents of the defendant. … [T]hey lost their authorization and were “without authorization” when they allegedly obtained and sent the proprietary information to the defendant via e-mail.”

The net effect of these cases has been to create a federal alternative to trade secret protection that requires the use of a computer but avoids the need to prove secrecy or reasonable efforts to maintain the secret. It provides a powerful federal claim to augment the common law and statutory trade secret actions.

C. Creating and Maintaining Trade Secrets.

1. Originality and secrecy.

To create a trade secret, one must first create something that is not publicly known and is also economically valuable. This standard is far lower than the “new, useful and nonobvious” standard of patent law, but it does differentiate trade secrets from the information and data that a company may prefer is not made public. Abstract ideas that are not sufficiently detailed so as to be protected as copyrightable expression may also be too vague to be protected as trade secrets.

Ideally, the precise documents and specimens that are to be treated as trade secrets should be marked as trade secrets. Although companies prefer not to have to meet this obligation, there is much to be gained from focusing trade secret protection on the “crown jewels” and not risking an overbroad policy that may be ignored by employees and therefore not sufficient for the important data.

For example, client lists are a species of information that is considered confidential by many companies but is often not protected by courts. Some courts suggest that the information is too readily obtained through market research. Other courts fear that the limitation on client lists would create an unreasonable burden on employees seeking new employment or to compete legitimately with their former employers.

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2. Acquisition through purchase or licensing.

In addition to protecting trade secrets created internally, it is very common for inventors and others to submit inventions, processes and innovations for purchase. The seller of the trade secret must enter into an agreement with the prospective purchaser prior to any disclosure. These agreements typically provide the potential seller a time frame in which to evaluate the proffered item. In some instances, the agreement also provides the potential purchaser the opportunity to show that it already had access to the alleged secret information and has no need to purchase the information or invention from the seller. These agreements then provide that the prospective purchaser will not use the information without entering into an agreement with the seller. There is not an obligation to purchase unless the item has been evaluated.

Under such a nondisclosure agreement, the parties can determine the value for the trade secrets that are part of the transaction. The sales document should create an affirmative duty on the seller not to disclose the information to any third party and not to compete with the purchaser to the extent permitted by law. In economically significant transactions, the payments and continuing obligations can be drawn out over an extended period of time, so that the noncompetition period is tied to the continuing payments.

3. Termination of trade secrets.

Trade secrets evaporate when the information becomes public or is no longer economically valuable. The mere declaration that information is a trade secret will not satisfy courts, so the underlying obligation to protect the information must be maintained. On the other hand, if the information remains nonpublic and economically valuable, trade secrets can last indefinitely.

Nondisclosure agreements are often drafted to limit the terms of those agreements to periods of five or seven years. Presumably, this is on the assumption that the inventions or processes disclosed will have been exploited during that period. In practice, however, a company that reviews an invention but does not purchase it may find it possesses valuable information that can be exploited once the agreement comes to an end, so some care should be taken about unintentionally undermining the value and length of these interests.

D. Enforcement of Trade Secret Rights.

1. Prima facie case for trade secret misappropriation.

According to noted patent and trade secret expert Roger Milgrim, the following four elements must be proven by the plaintiff to establish the prima facie case in a trade secret misappropriation claim.

(1) Plaintiff is the owner of a trade secret….
(2) Plaintiff disclosed the trade secret to defendant; or, defendant either procured unauthorized and wrongful access or wrongfully took the trade secret from plaintiff without plaintiff’s authorization.
(3) Defendant was in a legal relation with reference to plaintiff as a result of which defendant’s use of disclosure of the trade secret to plaintiff’s detriment is wrongful.
(4) Defendant has used or disclosed (or will use or disclose) the trade secret to plaintiff’s detriment; or, defendant, who knew or should have known of
plaintiff’s rights in the trade secret, used such secret to plaintiff’s detriment.\textsuperscript{18}

The first element of the prima facie case requiring that the plaintiff own the trade secret can be expanded somewhat. As one court recently explained, the “first element in a trade secret claim is that the plaintiff is the owner of a trade secret, or that the plaintiff has come to possess the trade secret, either by way of assignment, license, or some other means of conveyance from the trade-secrets owner or discoverer such that the owner no longer has a right to use the trade secret….”\textsuperscript{19} The plaintiff must be the exclusive holder of the trade secret, or else she must bring the actual licensor who owns the exclusive rights into the case as co-plaintiff.

Proof of the ownership of the trade secret will, in turn, relate back to evidence that the alleged information meets the trade secret definition. The information owned must be information kept reasonably confidential that is economically beneficial to the plaintiff. On the other hand, unauthorized public disclosure by the defendant cannot be the basis for claiming that there is no protection for the trade secret. This would create an injustice that the courts will not allow.

The second element illustrates the two types of trade secret cases. In one group of cases, the defendant had an affirmative duty to maintain the trade secret and then breached that duty. In the second group of cases, the defendant used espionage or otherwise wrongfully stole the trade secret. The third element reiterates that the taking was wrongful rather than a good faith public use of the trade secret, such as reverse engineering or bona fide research. And the fourth element alleges injury to the plaintiff.

\textbf{2. Defenses to trade secret misappropriation claim.}

Most of the defenses to a claim of trade secret misappropriation are more properly described as evidence intended to negate the prima facie claim of the plaintiff. In some settings these will be defenses while in others they will go to negate the element being proven by the plaintiff. For example, the defendant to a trade mark claim will try a number of techniques to establish that the information involved is not a trade secret. It may assert that there is no economic value to the information; that the information is publicly available; that the plaintiff did not take reasonable steps to ever protect the information; or that the information was appropriately the property of the defendant. Each of these allegations attacks the sufficiency of the ownership of the trademark by plaintiff.

The second group of defenses will focus on the authority or propriety of the defendant in acquiring the information. The defendant will try to prove its legitimate actions in researching the information, reverse engineering, seeking public records, or complying with contractual duties. If the defendant did not exceed its authority or if it relied upon public information, then no misappropriation could have occurred. Of course, it is not sufficient to claim that the defendant “could have” reverse engineered or found the information publicly. If the defendant acted improperly, it is no defense that another party could have received the information while acting properly.

Other traditional common law defenses are also available, as with trademark cases. Claims of unclean hands, laches, or other equitable defenses are available in appropriate cases, but these tend not to be used if the conduct of the defendant was intentional theft of the information.

\textsuperscript{18} 4-15 MILGRIM ON TRADE SECRETS § 15.01 (2005).
\textsuperscript{19} DTM Research, L.L.C. v. AT&T Corp., 245 F.3d 327, 331 (4th Cir. 2001).
3. **Remedies.**

The primary relief sought is injunctive relief to stop the use of the trade secrets. Typically, this will be sought early in the process, to maintain the status quo pending the trial. If a court determines that a preliminary injunction can be granted, it necessarily has determined that victory is likely for the plaintiff and that the plaintiff will be harmed more by the continued misconduct of the defendant than the defendant will be harmed by a court order stopping the use of the trade secrets in question. Preliminary injunctions powerfully affect the outcome of cases. Often, trade secret cases settle after the court has ruled on the preliminary injunction.

In addition to injunctive relief, the plaintiff will seek economic compensation. The measure of damages under the UTSA is very much like the measure of damages in copyright cases. The UTSA provides “‘[d]amages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taking into account in computing actual loss.’” Put another way, the plaintiff can receive the higher of either the money lost as a reasonable and provable consequence of the misappropriation of the trade secret or the provable net profits of the defendant that are attributable to the misappropriation. Courts may, instead, choose to calculate what a reasonable royalty rate would have been if the plaintiff had licensed the information to the defendant.

In extraordinary situations involving “willful and malicious misappropriation,” the court may choose to double the award, under the damages provision of the UTSA. Finally, attorneys’ fees may also be available if either party acted in bad faith, at the discretion of the court.

**E. The International Implications of Trade Secret Protection.**

The federal laws protecting U.S. companies from trade secret misappropriation clearly contemplate the protection in international trade. Other international treaties also recognize that trade secret protection is a part of national security and countries need to protect their economic interests through strong legislation.

Despite this, the evidentiary burden and impediments to protecting a company’s trade secrets overseas are significant. The laws vary significantly from nation to nation and courts tend to defer to national interests to some degree. The problem is particularly acute in low cost manufacturing countries such as China, where the same companies serving as licensed manufacturing plants may be supplying identical goods to trademark counterfeiters and intellectual property pirates.

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20 Uniform Trade Secrets Act § 3(a) (1985).
### Appendices

**A. Charts: Overview of Intellectual Property.**

#### 1. Intellectual Property Reference Chart.

<table>
<thead>
<tr>
<th>Subject Matter</th>
<th>Utility Patents</th>
<th>Copyrights</th>
<th>Trademarks</th>
<th>Trade Secrets</th>
<th>Publicity Rights</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inventions or discoveries of any new and useful process, act or method, machine, manufacture, or composition of matter, or any new and useful improvement thereof.</strong></td>
<td>Inventions or discoveries of any new and useful process, act or method, machine, manufacture, or composition of matter, or any new and useful improvement thereof.</td>
<td>&quot;Original works of authorship,&quot; including literary, dramatic, musical, artistic and certain other intellectual works.</td>
<td>A word, phrase, symbol or design, or a combination of such, that identifies and distinguishes the source of the goods.</td>
<td>A formula, pattern, compilation, program device, method, technique, or process, that: (i) derives economic value, being generally unknown and (ii) is subject to reasonable efforts to maintain the secrecy.</td>
<td>Name, nickname, likeness, biography, voice and identity.</td>
</tr>
<tr>
<td><strong>Method Acquired:</strong></td>
<td>Applied for by the inventor or joint inventors to the PTO. Financing entity does not apply. An employee &quot;employed to invent&quot; does so for the benefit of the employer, which will own the patent.</td>
<td>Automatically acquired upon fixation of the work (paper, disk, computer memory, sculpture, etc.).</td>
<td>Through usage.</td>
<td>Initially, through usage, but maintained only through necessary steps to protect the secret.</td>
<td>Varies by state. In most states, rights automatic, but some require actual use of rights in commerce.</td>
</tr>
<tr>
<td><strong>Term:</strong></td>
<td>20 years from the date on which the application for the patent was filed in the United States.</td>
<td>Life of the author plus 70 years. Works-for-hire have a term of 95 years from publication or 120 years from creation, whichever is shorter.</td>
<td>Indefinite, trademark will continue as long as usage continues.</td>
<td>Indefinite, trade secret will continue so long as secret maintains economic value and secrecy.</td>
<td>Throughout lifespan of person in all states where recognized. States differ on length of protection after death.</td>
</tr>
<tr>
<td>Time Needed to Acquire:</td>
<td>Utility Patents</td>
<td>Copyrights</td>
<td>Trademarks</td>
<td>Trade Secrets</td>
<td>Publicity Rights</td>
</tr>
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</tr>
<tr>
<td><strong>A patent application is generally published 18 months following the filing. The time for the issuance of the patent may be much longer.</strong></td>
<td>No waiting period. Registration with Copyright Office confers additional protections.</td>
<td>May be acquired as early as 6 months prior to use in commerce, but generally acquired when mark is used in conjunction with the use of goods or services.</td>
<td>No waiting period.</td>
<td>No waiting period.</td>
<td></td>
</tr>
<tr>
<td><strong>Renewals:</strong></td>
<td>Renewal not required but payment of “maintenance” fee is required. Maintenance fees are due at 3 ½, 7 ½ and 11 ½ years from the date the patent is granted.</td>
<td>None required for works created beginning 1978; renewal required for works published before 1964.</td>
<td>An Affidavit of Use (“Section 8 Affidavit”) must be filed between the fifth and sixth year following initial registration, and within the year before the end of every ten-year period thereafter.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Transfer:</td>
<td>Utility Patents</td>
<td>Copyrights</td>
<td>Trademarks</td>
<td>Trade Secrets</td>
<td>Publicity Rights</td>
</tr>
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</tr>
<tr>
<td></td>
<td>Fully transferable, through a signed writing. Should be recorded with the PTO within three months of execution.</td>
<td>Fully transferable, exclusive transfer only in writing signed by transferring party. Registration of transfer helpful but not required.</td>
<td>Assignable. Registration available through USPTO.</td>
<td>Fully transferable. Care must be taken not to disclose the information before the transfer is complete.</td>
<td>Owner of publicity rights may license use and transfer of licenses.</td>
</tr>
<tr>
<td>Property Excluded from Protection:</td>
<td>Laws of nature; Physical phenomena; Abstract ideas; Works of authorship; Any machine, process that is not new or non-obvious.</td>
<td>Ideas, procedures, methods, systems, processes, concepts, principles, discoveries, or devices, listings of ingredients or contents; and Titles, names, short phrases, and slogans; typefaces; familiar symbols or designs.</td>
<td>No protection for inventions, ideas, or products protected. Limited to protect the marks of goods or services. Trademarks do not prevent others from making the same goods or from selling the same goods or services under a different mark.</td>
<td>Any publicly disclosed information; information without economic value; and information independently created.</td>
<td>Does not extend to non-commercial use of name, likeness, etc. Cannot stop news sources or unauthorized biographies, etc.</td>
</tr>
</tbody>
</table>

**Appendix Information from U.S. Government Authored Resources**

Portions of the information provided in the Own It appendices have been copied from BusinessLaw.gov or other U.S. government-authored resources. United States copyright law does not allow the federal government to copyright material authored by the United States government or its agencies, so this information is reprinted without need for permission.

The Small Business Administration has a wealth of helpful information available on its websites. This information provides an excellent resource for entrepreneurs as they move from stage to stage in the development of the business.

Entrepreneurs should be wary of websites or infomercials that purport to sell “secret government information” or “inside information” since these products are often scams repackaging the public domain U.S. government content at unreasonably high cost.
## 2. Copyright Timeline for Duration, Renewal & Termination.

<table>
<thead>
<tr>
<th>Duration</th>
</tr>
</thead>
</table>
| Works Published Before 1923 are in the Public Domain | 1. The work is in its renewal term on January 1, 1978, the 1976 Act (prior to the Sonny Bono Copyright Term Extension Act) gave the copyright proprietor an extended renewal term for 47 years (17 U.S.C. § 304(b)), which would have expired no later than December 31, 1997 (17 U.S.C. §305).  
2. The Sonny Bono Copyright Term Extension Act would not operate to further extend this term for an additional 20 years because the work had fallen into the public domain before the effective date of the Sonny Bono Copyright Term Extension Act (October 27, 1998). |
| Works Published and Copyrighted Prior to January 1, 1978 | 1. 95 years from the time of publication.  
2. The 95 years is comprised of two terms, an initial term of 28 years beginning at the date of first publication (17 U.S.C. § 304(a)), and additional term of 67 years (17 U.S.C. § 304(b)). |
| Works Created but not Published or Copyrighted prior to January 1, 1978 | 1. The 1976 Act creating federal copyright in unpublished works effectively ended the perpetual copyright in unpublished works.  
2. §303(a) Copyright in a work created before January 1, 1978, but not theretofore in the public domain or copyrighted, subsists from January 1, 1978, endures for the longer of life+70, etc. or at least December 31, 2002.  
3. If, however, such a work is published on or before December 31, 2002, the work will gain additional copyright protection which will not expire before December 31, 2047 (an additional 45 years). |
| Works Created on or after January 1, 1978 | 1. Generally: A work “created” on or after Jan.1, 1978 “endures for a term consisting of the life of the author and 70 years after the author’s death.” The life-plus-70 term applies equally to unpublished works, to works published during the author’s lifetime, and to works published posthumously.  
2. Joint Works -- the term of copyright is measured from the death of the last survivor of a group of joint authors, no matter how many there are.  
3. Anonymous works, pseudonymous works, and works made for hire - 95 years from publication or 120 years from creation, whichever is shorter. Alternatively, ordinary life-plus-70 term if “the identity of one or more authors . . . is revealed” in special records maintained for this purpose in the Copyright Office. |
| Terminal Date of Copyright | All terms of copyright run to the end of the calendar year in which they would otherwise expire, so all copyrights end on December 31 of their final year. (17 U.S.C. § 304(5)). |
# Renewal

| Works in their Renewal Term (Copyrighted Between 1923 - 1950 and Renewed Before January 1, 1978) | Under § 304(b), any copyright which had already been renewed (i.e. copyrighted and published between 1923-1950, and properly renewed) so that it was either registered or in its second term at any time between December 31, 1976 and December 31, 1977, received an automatic 19-year extension to its renewal term (for a second term of 47 years (extended to 67 years if the work still had copyright in 1998). |
| Works in their First Term at the time of the 1976 Act (Copyrighted Between January 1, 1950 and December 31, 1963) | As enacted in 1976, § 304(a) required that any copyright in its first 28-year term on January 1, 1978 be renewed by the copyright owner at the end of its initial term in order to secure protection for a second term. If a copyright originally secured before January 1, 1964, was not renewed at the proper time, copyright protection expired at the end of the 28th calendar year of the copyright and could not be restored. (17 U.S.C. § 304(a) superseded). If a valid renewal registration was made at the time, the person(s) entitled to renewal received a second, 47-year term (now 67) (up from 28 years under 1909 Act). |
| Works in their First Term at the Time of the 1976 Act (Copyrighted Between January 1, 1964 and December 31, 1977) | In 1992, Congress rewrote §304(a) to provide for automatic renewal of copyrights secured between 1964 and 1977. |
| §304(A) (Amended 1992) | 1. If a timely renewal is filed, the author's first-term grants of renewal rights terminate any right in the grantee of the first term are extinguished. |
| §304(A) (Amended 1992) | 2. If no registration is filed, a derivative work made pursuant to the grant can still be exploited during the renewal term, but no new derivative can be made after the new term begins. (e.g. Films can be exhibited, but no remakes can be made.) |
## Termination of Transfers

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work-Made-For-Hire has no Termination Rights</td>
<td>No termination rights exist. The employer or commissioning party is treated as the initial copyright owner, and the work cannot be divested by the employee. The power to terminate is also unavailable to an employer or specially commissioning party who acquired copyright as a work-made-for-hire.</td>
</tr>
<tr>
<td>Terminations for Works Published and Grants Executed on or after January 1, 1923 but Before 1978 under §304(c)</td>
<td>Termination of the grant may be effected at any time during a period of five years beginning at the end of fifty-six years from the date copyright was originally secured, or beginning on January 1, 1978, whichever is later. (17 U.S.C. § 304(c)). The notice shall state the effective date of the termination, which shall fall within the five-year period and the notice shall be served not less than two or more than ten years before that date.</td>
</tr>
<tr>
<td>Alternative Terminations for Works Published on or After January 1, 1923 but Before 1950 under §304(d) (Added by Sony Bono Act)</td>
<td>The 20-year extension is subject to an additional termination right, if no termination right was previously exercised. In the case of any copyright other than a work made for hire, in its renewal term on the effective date of the Sonny Bono Copyright Term Extension Act (October 27, 1998); if the prior termination rights expired unused; then termination of a grant may be effected at any time during a period of 5 years beginning at the end of 75 years from the date copyright was originally secured.</td>
</tr>
<tr>
<td>Terminations for Grants executed on or After January 1, 1978 - §203(a)</td>
<td>The termination right may be exercised during a five-year period starting at the end of 35 years from the date of execution of the grant. A derivative work made pursuant to the grant can still be exploited by the party which had its rights terminated, but no new derivative can be made after the new term begins. (E.g. films can be exhibited, but no remakes can be made.) There is an exception if the grant was of a right of publication, in which case the five-year period begins at the earlier of 35 years after publication, or 40 years after the grant was made. Effect of Other Agreements on Termination—§203(a)(5). Termination may be effected notwithstanding any agreement to the contrary, including an agreement to make any future grant or to make a will.</td>
</tr>
</tbody>
</table>
B. Sample Agreement: Trade Secret Nondisclosure Agreement.

Sample nondisclosure agreement for submitting or reviewing a prototype.

NONDISCLOSURE AGREEMENT

This Agreement (“Agreement”) is entered into as of the date written below, by and between
[Blank] an individual/corporation with offices located at [Blank] (“Creator”) and [Blank] an individual/corporation with offices located at [Blank] (“Recipient”) with reference to the following facts:

Creator has developed specifications for a certain invention, process, or device (“Property”) which Creator wishes to provide to Recipient for the purpose of developing a business relationship for the participation in the development or production of the Property.

Recipient has skills and experience relevant to the development of the Property and desires to engage in discussions which may lead to the participation in the creation or production of the Property.

In the course of discussions regarding the development of such Property information and specifications related to the Property shall be given to Recipient by Creator, and the parties wish to protect the proprietary nature of such information and recognize that no disclosure can be made without this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, Recipient and Creator agree as follows:

1. Confidentiality. Recipient shall not directly or indirectly, disclose, disseminate, publish, or use for its business advantage or for any other purpose, at any time during or after the term of this Agreement any information received from Creator deemed confidential by the other party (“Confidential Information”) without the express written permission of Creator for a period of five (5) years following the date of receipt of the Confidential Information.

   a. Definitions. For purposes of this Agreement, Confidential Information shall be defined as any information not generally known in the industry about Creator’s ideas, concepts, products, designs, intellectual property, trade secrets, services, or any combination thereof, whether or not such information would be recognized as proprietary absent this Agreement, including but not limited to information related to the Property developed by Creator. In addition, Confidential Information also includes, without limitation, information relating to the parties’ software, trade secrets, financial projections, customers, suppliers, employees, consultants, technologies, technical and business strategies, marketing and promotion strategies, and information either party is obligated to treat as confidential.

   b. Limitations. Notwithstanding any other provision of this Agreement, Recipient shall not be liable for disclosing, disseminating, publishing or using information which (i) was already known prior to the receipt of the Confidential Information; (ii) is now or becomes public information through no wrongful act of the Recipient; (iii) is independently developed or acquired by Recipient without any use of the Confidential Information in such development; or (iv) is required to be disclosed by law.
2. **Documents and Materials.** The documents and materials of Creator (including but not limited to all documents, inventions, processes, devices, data, reports, projections, records, notes, lists, specifications and designs) are furnished in accordance of this Agreement and shall remain the sole property of Creator. This information (collectively known as “Evaluation Material”), shall upon the termination of this Agreement be promptly returned to Creator, including all copies thereof which are in the possession or control of Recipient, its agents, and its representatives. No license under any trade secrets, copyrights, or other rights is granted by this Agreement or any disclosure of Confidential Information hereunder.

3. **Term and Renewal.** The term of this Agreement shall be one (1) year commencing as of the date hereof; provided however, that Paragraph 1 of this Agreement shall survive termination of this Agreement and shall remain in full force and effect for a period of five (5) years.

4. **Miscellaneous.**

   a. **Further Documents.** Each of the parties agrees to execute, acknowledge and deliver any and all further documents which may be required to carry into effect this Agreement and its respective obligations hereunder, all of which further documents shall be in accordance with and consistent with the terms of this Agreement.

   b. **Resolution of Disputes; Attorneys’ Fees.** The parties recognize that irreparable injury, as well as monetary damages may result as a result of a material breach of this Agreement. In the event of a breach of this Agreement, the prevailing party may be entitled to injunctive relief in addition to any remedies available at law. Such prevailing party shall also be entitled to reasonable attorneys’ fees and related expenses incurred as a result of such breach.

   c. **Headings.** Provision headings are solely for convenience and reference, and have no legal significance.

   d. **Assignment.** Neither party may assign this Agreement without the written consent of the other party.

   e. **Notices.** All notices, statements or other documents which either party shall desire to give to the other hereunder shall be in writing and shall be deemed given as when delivered personally or by telex, or 48 hours after deposit in the U.S. mail, postage prepaid and addressed to the recipient party at the address set forth in the opening paragraph of this Agreement, or at such address as either party hereto may designate from time to time in accordance with this Paragraph.

   f. **Amendments.** This Agreement may be modified or amended only in a writing signed by both parties.

   g. **Severability.** If any provision of this Agreement shall be held to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable. If a court finds that any provision of this Agreement is invalid or unenforceable, but that by limiting such provision it would become valid and enforceable, then such provision shall be deemed to be written, construed, and enforced as so limited.
h. **Entire Agreement.** This Agreement contains the full and complete understanding between the parties hereto with reference to the within subject matter, supersedes all prior agreements and understandings, whether written or oral, pertaining thereto, and cannot be modified except by a written instrument signed by both of the parties hereto. Each of the parties acknowledges that no representation or promise not expressly contained in this Agreement has been made by the other or its agents or representatives.

IN WITNESS WHEREOF, the undersigned have executed this Agreement the day and year written below.

Date: _________________________

“Creator”

________________________________

By_________________________________
Its_________________________________

“Recipient”
(Company Name)

________________________________

By_________________________________
Its_________________________________