

INTELLECTUAL PROPERTY RIGHTS AND SMALL BUSINESSES

**Charles A. Moster
and Matthew E. Burr**

Moster Wynne
620 Congress Ste 320
Austin Texas
cmoster@mosterwynne.com

**State Bar of Texas
REPRESENTING SMALL BUSINESS
CONTRACT NEGOTIATIONS:
NEGOTIATING WITH A GORILLA**

March , 2008
Austin, TX

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
I. INTRODUCTION	3
II. TRADEMARKS ARE SOURCE IDENTIFIERS	3
A. Trademarks and Service Marks	4
B. Domain Names and Trademarks	6
C. Trade Dress	7
III. COPYRIGHTS	7
A. The Nature of Copyright Protection	7
B. Qualifications for Copyright	8
IV. PATENTS	8
A. The Nature of Patent Protection	8
B. Patents may be one of three types	9
1. Utility Patents.	9
2. Design Patents.	9
3. Plant Patents.	10
C. Provisional Patent Applications	10
D. Patentability and Infringement	10
V. TRADE SECRETS	11
VI. INTELLECTUAL PROPERTY IN A BUSINESS	11
A. Patent Rights:	11
B. Trade Secrets:	12
C. Copyrights:	12
Table of Authorities	13

I. INTRODUCTION

My talk today focuses on several distinct intellectual property (“IP”) rights established under federal and state law, which may give a small business leverage when negotiating with a “gorilla.” In quick summary: a patent protects the right to the exclusive use of an invention. A trade secret consists of confidential information which provides the owner with a competitive advantage in the marketplace. A copyright comprises five distinguishable, exclusive rights in the use of a work of authorship. Trademarks and related rights are identifiers of the source of goods or services.

For many businesses, the most valuable assets, in addition to capital, are found in these proprietary rights. The ability to successfully compete may arise from excluding others by enforcing patent rights, advantageous business methods, or the established “name” or goodwill captured in a trademark or service mark. Additionally, in the sale or acquisition of a business, it is the intellectual property rights that may contribute the largest amount in the valuation of the business. The maintenance of these advantages is made possible by properly establishing and enforcing the intellectual property rights of the business.

Properly protected IP not only provides a small business with defenses against a gorilla, the IP can also be used offensively to compel a gorilla to come to the table to negotiate. For example, a small business

that owns a patent on a valuable technology that the gorilla uses or wants to use can force the gorilla to take a royalty-bearing license or even to acquire the small business outright if so desired by the small business.

Since IP rights can be so valuable to a small business, it is important to feel comfortable advising your small business client about the various forms of IP protection and the value of IP rights to their business so that your client meets the gorilla on a more level playing field.

II. TRADEMARKS ARE SOURCE IDENTIFIERS

Source identifiers are used to inform the public that a product or process comes from a particular business. Marks or source identifiers are an important way for a business to establish a brand. Elements such as logos or graphic designs and tag lines or catch phrases, trade dress, as well as the name of the business, may be considered “brand elements.” Each brand element may be recognized by customers to a degree that correlates to the amount of goodwill developed by the source business. Source or brand identification can be achieved by trademarks, service marks, trade names, and trade dress.

A valuable brand may give a small business an advantage over a gorilla where the gorilla wants to enter a niche market in which the small business already has established good will and trust. A source

identifier may be an important element of growing a small business by franchising or licensing, which are also effective ways to compete with the gorillas. Finally, source identifiers may be transmuted into valuable domain names and help a small business establish a strong ecommerce presence.

Although common law rights can accrue to a mark simply through using the mark in the marketplace so that the mark become a repository for the good will of the business, it can be difficult and expensive to prove up the value of mark if the business should ever need to enforce or defend its rights in litigation. Registration through the United States Patent and trademark Office (USPTO) is easy and inexpensive compared to litigation.

It is not unusual for even sophisticated businesses to invest time, money and enthusiasm in a branding campaign and only later consider whether their branding elements will be registrable. The most common reasons that marks have trouble getting registered is that they either (1) create a likelihood of confusion with an already registered mark; or (2) the mark is descriptive of the goods or services. One way to reduce the likelihood of confusion is to search the USPTO databases, and also domain name registries, for the mark or similar marks prior to investing in the mark. Additionally, a business may apply to register a mark before going public with it by applying on the basis of the business' bona fide intent to use the mark.

The following is a discussion of the factors that are relevant to the registration of a trademark to help the business select good marks for registration or at least understand the legal terrain if their marks encounter registration difficulties.

A. Trademarks and Service Marks

Trademarks and service marks are governed by state and federal law, and may be registered at either level. Federal trademark statutes are collected in Title 15 of the United States Code, also known as the Lanham Act. 15 USC §§ 1051 – 1127. Service marks are essentially identical to trademarks, except they are used to identify and distinguish services and the source of the services (as opposed to goods).

You may use the “TM” indicia with any word or logo or whatever that you consider to be an identifier of you as the source of the goods or services whether or not you have registered the mark. The ® symbol is used only for registered marks.

The more descriptive a mark is, the more difficult it is to register. It is very common for a service business to choose a name, like SPEEDY DOCUMENT DELIVERY, that describes the service the business performs. Such a mark may be difficult register because it is so literally descriptive. Of course trademark registration is not the only consideration when naming a business and the business owner has to balance to need for people to

understand what the business does from its name against the strength of any intellectual property rights that might accrue to that name.

Trademarks and service marks are examined by the USPTO prior to registration. The examination of trademark applications is governed by the Trademark Manual of Examining Procedure (TMEP) which is available for free at the USPTO website (www.uspto.gov). One purpose of the examination is to determine where the mark falls in continuum of descriptiveness. *Remington Products, Inc. v. North American Philips Corp.*, 892 F.2d 1576, 13 USPQ2d 1444, 1448 (Fed. Cir. 1990) (the mark must be considered in context, i.e., in connection with the goods).

A term that expresses the name of a product rather than the source is generic and not registrable. Marks that are generic (such as "Lite" for a low-calorie beer) cannot be registered, cannot be trademarks, and exclusive use of such terms will not be given to one person. Marks that merely describe a good or service are descriptive and are not registrable unless the mark has acquired distinctiveness through use in the marketplace.

The descriptiveness continuum extends from "generic" at one end to "fanciful or arbitrary" at the other end. "EXXON" is the classic example of a fanciful mark because Exxon intentionally created a word for its name that has no meaning in any

language. The only meaning of the word "EXXON" is as an identifier of the oil company. "Apple" for computers is an example of an arbitrary mark. It is not fanciful because the word "apple" has a meaning in ordinary English usage, but its application to computer goods is arbitrary. The more arbitrary or fanciful is a mark, the easier it is to register and the stronger the mark is.

In the middle of the continuum or spectrum are suggestive marks which suggest the product but do not describe it. Suggestive marks are inherently registerable as trademarks. As explained in the TMEP:

"Suggestive marks are those that, when applied to the goods or services at issue, require imagination, thought or perception to reach a conclusion as to the nature of those goods or services. Thus, a suggestive term differs from a descriptive term, which immediately tells something about the goods or services. See *In re Shutts*, 217 USPQ 363 (TTAB 1983) (SNO-RAKE held not merely descriptive of a snow removal hand tool). See also *In re Quik-Print Copy Shop, Inc.*, 203 USPQ 624 (TTAB 1979), *aff'd*, 616 F.2d 523, 205 USPQ 505 (C.C.P.A. 1980) (QUIK-PRINT held merely descriptive of printing services); *In re Aid Laboratories, Inc.*, 223 USPQ 357 (TTAB 1984) (BUG MIST held merely descriptive of insecticide). Suggestive marks, like fanciful and arbitrary marks, are registrable on the Principal Register without proof of secondary meaning. Therefore, a designation does not have to be devoid of all meaning in relation to the goods/services to be registrable."

A company may invest millions of dollars to bring a product to market. Traditionally, the company could not seek registration of the marks for the

product until after the product was in the market place. Companies were unhappy with the risk that they might not be able to register their product's marks because they could not reserve rights to the mark in advance. In response to this concern, Congress amended the Lanham Act about 15 years ago to provide an alternative basis for registering marks. Marks may be registered now on the basis of the applicant's bona fide intent to use (ITU) the mark. An ITU application is examined and processed just like a regular application all the way through to the allowance of them mark. Once the mark is allowed, however, the applicant must later submit evidence that it has started using the mark in the marketplace before the mark will be officially registered.

A trademark may be refused for registration if the USPTO determines that there is likelihood of confusion with a registered mark. In re E.I. du Pont de Nemours & Co., 476 F.2d 1357, 177 USPQ 563 (CCPA 1973) is the landmark case that sets forth all factors for likelihood of confusion.

Remedies for infringement include an injunction, the infringer's profits, damages, costs, destruction of the infringing articles, and in certain circumstances, exemplary damages and attorney fees. See 15 U.S.C. §1116-1118.

Federal registration gives the trademark owner several advantages. The registration serves as a notice of a claim of ownership of the mark, so that no

subsequent user can adopt the mark in good faith. There is a presumption as to ownership and exclusive right to use the mark if it has been registered. In certain instances the registration may be conclusive evidence of the right to exclusive use of the mark. Also, the registration permits the owner to use the registration symbol ®.

B. Domain Names and Trademarks

Another benefit of trademark registration is that a registered trademark trumps a subsequent domain name. A domain name can infringe a registered trademark. See also the Anticybersquatting Consumer Protection Act (also known as Truth in Domain Names Act) 15 U.S.C. § 1125(d).

Obtaining a domain name is not equivalent to registering a trademark. In fact, a trademark registration that precedes the registration of a domain name for a version of the trademark may be invoked against the owner of the domain name. Under the right circumstances a trademark owner can acquire the domain name.

If a business discovers that someone else has obtained a domain name extension such as ".com" for the business' trademark or something confusingly similar to their mark, the business may be able to use the trademark registration in a process to force the owner of the domain name to surrender the domain name, particularly if the domain name was obtained in

bad faith such as, for example, to cyber squat the domain name for the purpose of extorting a sale of the domain name.

Internet Corporation for Assigned Names and Numbers (ICANN) is the private sector, non-profit corporation created in 1998 to assume responsibility for the assignment of domain names and IP addresses. ICANN also administers a process for resolving disputes between trademark owners and the owners of domain names.

C. Trade Dress

Trade dress is a concept similar to trademarks, and refers to the overall appearance of a product, its packaging, store design or décor and the like. 15 U.S.C. §1125 also known as § 43(a) of the Lanham Act. The trade dress of a product may include the size, shape, coloring and overall design of the product or of its package. The use of distinctive colors, lettering, and container configurations can all establish trade dress rights. If the distinctive features of the packaging have attained sufficient recognition in the trade as identifying the source of the product or service, then copying by competitors can be actionable. See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992).

III. COPYRIGHTS

A. The Nature of Copyright Protection

Copyright is best known for being important to authors and musicians as a way to protect rights in their creative works. Perhaps less well known is that copyrights may be important for businesses that create software, because software is work of authorship. Copyright can provide a small business with remedies if a gorilla outright copies your software. Copyright registration formalizes abstract rights so that the rights may be more easily made the object of negotiation.

Copyrights are covered by the Copyright Act of 1976 (Title 17 of the United States Code, 17 U.S.C. §101 et seq.) as amended, and protect certain types of works of authorship. Such works include literary works (including computer programs); musical works; dramatic works; choreographies; pictorial, graphic, and sculptural works; motion pictures; and sound recordings. Notable amendments to the Copyright Act include The Digital Millennium Copyright Act, 17 U.S.C. §§ 512, 1201–1205, 1301–1332 and The Sonny Bono Copyright Term Extension Act 17 U.S.C. §§ 302-304.

The copyright provides exclusive right to the work, and actually encompasses the five distinct and separable legal rights to (1) reproduce the work, (2) prepare "derivative" works, (3) publicly distribute the work, (4) publicly display the work, and (5) publicly perform the work.

Anyone who "violates any of the exclusive rights of the copyright owner" is an infringer of the

copyright. Infringement generally requires a substantial copying of the copyrighted subject matter. Determination of copying will typically involve consideration of two factors - (1) similarity of the works, and (2) access to the copyrighted work. These two factors may be viewed as lying on opposite ends of a continuum. If there was clear access to the copyrighted work, then less similarity will likely be necessary for infringement to be found. If the copy is highly similar to the copyrighted work, then access may be presumed.

Remedies for infringement can include an injunction, impounding and destruction of the infringing items, damages (actual or statutory), court costs, and attorney fees. It is a criminal offense to willfully infringe another's copyright for commercial gain, or to fraudulently remove the copyright notice.

The exclusivity of a copyright is limited by the "fair use" doctrine and other statutory exceptions. The fair use doctrine permits copying without permission, if such use is reasonable and is not unduly harmful to the interests of the copyright owner. Fair uses are generally related to public-oriented uses such as teaching, news reporting, research and the like.

B. Qualifications for Copyright

Copyrightable works must be "fixed" in a tangible medium, be original, and have an appreciable

amount of creativity. The original expression of the idea is protected, but not the idea itself.

A copyright is registrable with the Copyright Office, and requires that copies of the work bear the copyright "notice" (e.g. "Copyright 1999 Charles Moster"). The copyright has a limited duration depending on the manner in which the copyrighted work was created. In general, the copyright extends to seventy (70) years after the death of the last surviving author of a work. For an anonymous work or a "work for hire" the term of copyright is the shorter of ninety-five (95) years after the work was first published or one hundred (100) years after the work was created. The Sonny Bono Copyright Term Extension Act 17 U.S.C. §§ 302-304.

IV. PATENTS

A. The Nature of Patent Protection

A patent can provide valuable leverage for a small business in negotiations with gorilla. The ability to exclude the gorilla from making or using the patented invention may effectively level the playing field for negotiations.

Patents were identified by the founding fathers in the United States constitution for the protection of the "useful arts." Patent rights were established by federal law (United States Code Title 35) to protect the new, useful and "non-obvious" features of a product or process. A patent preserves to the owner for a limited

time the exclusive right to make, use and sell an invention. The patent does not give the owner any affirmative right to make or use an invention. Instead, the patent is an exclusionary right: you can exclude others from making using or selling the invention.

It is important to understand, however, that a patent does not make the government enforce your rights for you. You have to enforce your rights yourself by taking measures against infringers. Patent enforcement may be as simple as sending an effective cease and desist letter to an infringer but more often requires litigation or the negotiation of a license.

A patent is obtained by filing an application with the United States Patent and Trademark Office. The patent itself is a document of several pages which includes a description of the inventive concept, and concludes with one or more "claims" which legally define the invention. The application procedure includes a substantive examination of the invention and a comparison with the "prior art," and can take a couple of years to complete. The content and form of the application is governed by rules contained in the Code of Federal Regulations Title 37.

During the pendency of a patent application with the United States Patent Office, the prospective patent owner may mark its product with the legend "Patent Pending" or "Patent Applied For." This designation may in fact yield a competitive advantage. A potential competitor, including a "gorilla," may refrain from

entering into the market with the possibility that a patent will issue at any time. Since patent applications are kept secret during their pendency, the threat of a soon-to-issue patent is a real one. Competitors will be understandably hesitant to invest significant sums necessary to "tool up," develop an inventory, and proceed with marketing, if an injunction could issue at any time to defeat these efforts.

B. Patents may be one of three types.

1. Utility Patents.

A utility patent covers the functional aspects of a product (or process), i.e., the manner in which it is constructed or functions to achieve a given result. A utility patent has a term extending from issuance to twenty (20) years after the application date, and may be obtained for any "new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof..." A utility patent cannot be obtained for certain non-statutory subject matter, such as a law of nature like gravity. However, the application of a mental process or physical law to produce a new and useful result may be patentable, as may be business methods and computer software.

2. Design Patents.

A design patent covers "any new, original and ornamental design" of a product. The key concept here is 'ornamental' – the design cannot have any

usefulness. Design patents are particularly well adapted for protecting certain types of products, such as those (e.g., furniture) in which the design is the basis for product appeal.

3. Plant Patents.

A plant patent may be obtained by one who invents or discovers, and asexually reproduces, certain distinct and new varieties of plants.

C. Provisional Patent Applications

A provisional patent application is an application filed without a formal patent claim, oath or declaration, or any information disclosure (prior art) statement. A substantial advantage of the provisional patent application is that it establishes the application filing date and the applicant may use "patent pending" markings.

Provisional applications are not examined and are not published by the USPTO. The cost of preparing and filing a provisional patent application is often substantially less than for a non-provisional utility application, for example. Provisional patent applications may be particularly attractive for individuals or small businesses. The USPTO filing fee, for example, is only \$105 as compared to almost \$500 for a non-provisional utility application.

To get the true value from a provisional application, however, the provisional must be

converted to non-provisional status within a year from its filing date.

D. Patentability and Infringement

The patentability of an invention is judged as of the date the invention is made. The date of invention is established when the invention has been conceived and "reduced to practice." Reduction to practice refers to the actual making of the invention and demonstrating its operability under normal conditions. However, there is no requirement that an invention actually have been made in order to file a patent application. Instead, the law provides that the filing of a patent application constitutes a "constructive" reduction to practice. Thus, the date of invention may be established either by actually constructing the invention, or by filing a patent application.

Patentable subject matter must be new, useful and unobvious. Utility is readily established in most instances. Novelty and non-obviousness are more difficult to assess, and must be determined by comparing the invention with the "prior art." 35 U.S.C. §§102-103. As used in patent law, the term "art" means the field of endeavor or skill set required for the invention. "Prior" art refers to descriptions relevant to the invention that were published before the filing date of the patent application. The prior art includes subject matter:

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 [or]

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 to the date of the application for patent in the United States

If the identical subject matter to be patented existed in the prior art, then the subject matter lacks novelty, and is said to have been "anticipated" by the prior art. In deciding obviousness, three factual inquiries must be answered: the scope and content of the prior art; the differences between the claimed subject matter and the prior art; and the level of ordinary skill in the art. This information is used to decide if the invention "would have been obvious at the time the invention was made to a person having ordinary skill in the art..."

Infringement of any of the patent types occurs if another makes, uses, imports or sells a product or process which falls within the scope of the patented invention. The remedy for patent infringement is by civil action, and the patent claimant may obtain an injunction, damages, and in certain cases may recover its reasonable attorney fees and up to a trebling of damages. 35 U.S.C. § 271.

V. TRADE SECRETS

Trade secrets exist under state law and consist of confidential information, not generally known, which provides the owner with a competitive advantage. A trade secret need not involve the degree of novelty necessary under the patent statutes, but can not be generally known in the industry. No formal process is required to obtain trade secrets, except that steps must be taken to assure secrecy. The unfettered disclosure of the secret results in its loss. During a negotiation, therefore, trade secrets must only be disclosed subject to a confidentiality agreement.

VI. INTELLECTUAL PROPERTY IN A BUSINESS

Lots of intellectual property rights may arise in the business environment. As an example, consider the fictitious Tom Servo Computer Corporation which manufactures and sells various computer-related products, including computer software and accessories such as specially designed monitor stands. Smith Computer also provides certain support services, including software and equipment service. Potential intellectual property rights of Tom Servo Computer would include the following:

A. Patent Rights:

1. Mechanical design of the monitor stands.
2. The computer software, particularly if it interrelates with computer hardware in some manner.

3. Novel manufacturing methods or equipment used in production of the monitor stands.
4. Specially developed tools used in servicing products.
5. Ornamental designs of products such as monitor stands.

B. Trade Secrets:

1. Any non-disclosed aspects of the computer software.
2. Internal methods of doing business, such as office management and policies, handbooks, and salary schedules.
3. Manufacturing techniques, processes, or equipment, and special formulations for materials used.
4. Lists of customers, suppliers, distributors, etc.
5. Knowledge of special requirements of customers or of special business aspects of dealing with suppliers.
6. New product developments, ongoing research, projected direction of new development work or territorial expansion.
7. Financial information such as pricing, profits, salaries, etc.

C. Copyrights:

1. Computer software, user and reference manuals.

2. Promotional materials, ads, catalogs, press releases.
3. Certain ornamental, non-functional aspects of product designs.
4. Product packaging, package inserts.
5. Sales training manuals, technical bulletins, sales presentations.

D. Trademarks, etc.:

1. Non-descriptive marks used in connection with products (trademarks) or services (service marks).
2. Slogans or phrases used in advertisement of goods or services.
3. Distinctive packaging for the software.
4. Graphic elements such as logos and designs.

Table of Authorities

Cases

In re Aid Laboratories, Inc., 223 USPQ 357 (TTAB 1984).....	5
In re E.I. du Pont de Nemours & Co., 476 F.2d 1357, 177 USPQ 563 (CCPA 1973).....	6
In re Quik-Print Copy Shop, Inc., 203 USPQ 624 (TTAB 1979), aff'd, 616 F.2d 523, 205 USPQ 505 (C.C.P.A. 1980).....	5
In re Shutts, 217 USPQ 363 (TTAB 1983)	5
Remington Products, Inc. v. North American Philips Corp., 892 F.2d 1576, 13 USPQ2d 1444, 1448 (Fed. Cir. 1990)	4
Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763 (1992)	7

Statutes

15 U.S.C. § 1125(d)	6
15 U.S.C. §1116-1118.....	6
15 U.S.C. §1125	6
15 USC §§ 1051 - 1127.....	4
17 U.S.C. §§ 302-304.....	7
17 U.S.C. §§ 512, 1201–1205, 1301–1332	7
17 U.S.C. §101 et seq.....	7
35 U.S.C. § 271	10
35. U.S.C. §§102-103.....	10