

## TOPIC 23: INTELLECTUAL PROPERTY

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### Overview

Intellectual property, as the name implies, is an intangible form of property right. It establishes rights that extend beyond the possession of a physical item and protects an individual's ideas, plans, procedures, information, creations (function and design), etc. This chapter introduces the concept of intellectual property, its economic importance, and the four major types - trade secrets, patents, trademarks, and copyrights. It then proceeds to explain the nature of each form of intellectual property right and the process for securing those rights. It also provides the extent of protection afforded the holder of intellectual property rights and the method or manner of enforcing those rights against infringers.

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### VIDEO LESSON - INTRODUCTION



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## TOPIC 23: INTELLECTUAL PROPERTY - QUESTIONS & ANSWERS

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### 1. What is intellectual property?

Intellectual property is an intangible (not touchable) form of property or right. The types of legally recognized intellectual property right include:

- *Trade Secrets* - Intra-firm information that has economic value, is not commonly known, and is subject to internal measures to protect the information from disclosure.
- *Copyrights* - An original, creative work of authorship that is affixed to a tangible medium (printed, recorded, etc.)
- *Trademarks* - A distinctive word, symbol, logo, or other mark that is used in commerce to represent a business, its products, or services.
- *Patents* - Discoveries, designs, or inventions constituting patentable subject matter that is novel, non-obvious, and useful.

Generally, intellectual property rights afford the owner or a holder the right to exclude others from selling, importing, or otherwise commercializing the subject property.

- *Note:* The owner or holder of intellectual property may have the right to exclude others from infringing upon her rights but not have the right to use or possess a manifestation of its intellectual property.
- *Example:* Dan designs a machine that can simultaneously fire hundreds of projectiles (bullets) per second. While he may be able to patent this creation and exclude others from developing and selling his invention, it may be illegal for him to actually possess this type of weapon.

- *Resource Video:* <http://thebusinessprofessor.com/what-is-intellectual-property/>

### 2. What is the purpose behind granting ownership rights in intellectual property?

Like other forms of tangible property, the rights associated with intellectual property incentivize individual productivity. The exclusive right to use or control property also incentivizes creativity. This belief is captured in Article 1, Section 8 of the US Constitution, which grants Congress the power “to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” In furtherance of this purpose, the Federal Government created an extensive statutory and regulatory framework for the recognition and enforcement of intellectual property rights.

- *Note:* Generally, intellectual property rights (particularly patents) grant a limited monopoly to the holder in exchange for full disclosure of the intellectual property rights to the public. This is not true for trade secrets, which require secrecy.

- **Discussion:** How do you feel about the concept of intellectual property? Should individuals be able to establish rights in a form of creation that limits the ability of others to employ that creation in a commercial manner? Why or why not? How is this different from a monopoly, which is generally illegal under antitrust law?
- **Practice Question:** Payton and Eric are having a discussion over the usefulness and necessity of a government allowing for intellectual rights. They ask your opinion as to why the government allows for such rights. What can you tell them about the origin and purpose of intellectual property rights in the United States?
- **Resource Video:** <http://thebusinessprofessor.com/justification-for-intellectual-property-rights/>

### 3. What does an individual have to do to capture intellectual property rights?

The requirements for securing intellectual property rights vary depending upon the type. For example, some types of intellectual property may require filing with a government agency. Failure to file or meet a filing deadline could forfeit one's rights to the "public domain". Once intellectual property is in the public domain, an individual's rights in the property are forfeited and cannot be recaptured. This is just one simple example of many separate requirements that may apply when attempting to secure rights in a particular item of intellectual property. The requirements for securing rights in intellectual property are discussed separately.

- **Discussion:** Why do you think Congress provides for varying methods of securing intellectual property rights based upon the type of intellectual property? Is there an argument that the procedures should be more uniform?
- **Resource Video:** <http://thebusinessprofessor.com/capturing-or-securing-intellectual-property-rights/>

## TRADE SECRETS

### 4. What are trade secrets?

A trade secret is a form of intellectual property specific to individuals or businesses involved in a trade or industry. More specifically, it is any form of knowledge or information that:

- has economic value from not being generally known to, or readily ascertainable by proper means by, others; and
- has been the subject of reasonable efforts by the owner to maintain secrecy.

Trade secrets may include a broad range of company information, such as project or strategic plans, operational methods, customer lists, designs, and research and development.

Trade secrets are protected under common law and many states have adopted forms of the Uniform Trademark Secrets Act (UTSA). Both provide causes of action against individuals who misappropriate the information kept as a trade secret. The theory behind liability is that an individual who misappropriates the information breaches a duty of loyalty owed to the owner. Trade secret rights never expire, unless the information loses economic value or is no longer kept secret by the

company.

- *Note:* Competitors may legally assemble, reverse-engineer, or otherwise uncover information subject to a trade secret. The sole limitation is that a competitor cannot misappropriate the information from the holder of the trade secret.
- *Example:* A trade secret could be a recipe, customer list, or strategy for carrying out a process. If Cheap-Cola reverse-engineers the Coca-Cola formula, it is free to use the trade secret in commerce without violating Coca-Cola's rights. If, however, Cheap-Cola pays a Coca-Cola employee for the secret recipe, it would violate Coca-Cola's rights to sell a product employing that recipe.

- **Discussion:** How do you feel about the idea that a company's private information cannot be taken and used by others? How do you think these types of protections affect industry competition? Can you think of any companies that successfully use trade secret rights in selling a product?
- **Practice Question:** Jim works for Sweet Melissa's Barbecue Sauce Company as a taste engineer. He works with combinations of spices to make the Sweet Melissa sauce line tasty. He is considering leaving the company to start his own sauce line. He developed several sauces for Sweet Melissa that he knows are not patented. He believes that he can take these recipes and develop a successful product line. Does Jim potentially face liability if he uses the recipes he developed when working for Sweet Melissa's?
- **Resource Videos:** <http://thebusinessprofessor.com/what-are-trade-secrets/>

## PATENT RIGHTS

### 5. What are patents or patent rights?

A patent is a form of intellectual property protection that covers products, processes, designs, and other creations (collectively "invention"). A patent conveys a right to exclude others from making, using, selling, or importing the covered invention. Patent rights are basically rights to exclude others. They protect against copies or unauthorized reproductions of the patented item. Patent rights are the subject of federal law, and states may not grant or otherwise regulate patents. The US Patent and Trademark Office (USPTO) is a federal agency that administers the patent system. It reviews and grants petitions to secure patent rights.

- *Note:* Registering a patent with the US Customs and Border Protection Agency may help prevent infringement, such as bringing counterfeit goods into the US.

Consistent with other forms of intellectual property, the purpose or objectives of the patent system is to record and disclose patents to the public. The trade off for public disclosure of the invention process is protection of limited rights in the property. The effect is to promote or provide an incentive for creation and innovation. The belief is that innovation is a benefit to society. Providing an individual the right to exclude others from reproducing her creation for commercial purposes allows her to capitalize on her creation without competition. Patent rights last for a statutory period of time (14 or 20 years). Contrary to popular belief, patent rights do not confer the right to make, use, or sell a patented creation. These rights are subject to any laws, regulations, ordinances, etc., that pertain to and may limit rights to use this type of creation (such as environmental regulations, licensing, antitrust rules, consumer regulations, private contracts, etc.).

Further, the patent holder may not use her patent in a manner that infringes on the rights of others.

- *Note:* Patent protection does not stop a valid purchaser of the item from using the item. Further, it does not stop that individual from reselling the item. It does, however, stop the individual from manufacturing the item, selling the copied item, or (in some instances) using the unauthorized copy. Patent rights provide a specific period of protection that varies depending upon the type of patent. After the expiration of that time, anyone can use, produce, or sell the patented subject-matter (i.e., it enters the “public domain”).
- *Example:* BigPharm Corp buys the patent rights to a new drug. It spends over \$1 Billion on research and development. Once the clinical trials are complete and the drug is FDA approved, BigPharm releases the drug to the public. Other drug companies are prevented from reproducing the drug and selling it for a 20-year period. In many industries (such as pharmaceuticals) it is imperative to allow creators the ability to recuperate their costs before allowing competitors to capitalize by copying their creation.

- **Discussion:** How do you feel about the government granting individuals the exclusive right to make, use, or sell their invention? Why do you think patent rights only allow the ability to exclude others?
- **Practice Question:** Mandy is a metal worker. She builds a new machine for bending metal. If Mandy is considering starting a business manufacturing and selling the machine, what are the advantages of pursuing patent protection?
- **Resource Videos:** <http://thebusinessprofessor.com/overview-of-patents/>

### 6. What are the primary types of patents?

There are three categories of patent, as follows:

- *Utility Patents* - This generally covers the creation of a new composition of matter, function, or process. This includes machines, procedures, and chemical compounds. These creations must be a novel (new), non-obvious, and useful. The term of protection is 20 years from the date of filing.
- *Design Patents* - This covers the pattern, design, or overall appearance (including ornamentation) of a product. It generally includes new, original, and ornamental or aesthetic design for an article of manufacture. It concerns appearance and is not related to function. The term of protection is 14 years from date of issue.
- *Plant Patents* - This covers the development of a new plant species through genetic engineering. This may include hybrid species of crops or a new variety of plant that can be reproduced asexually. The term of protection is 20 years from date of filing.

Utility patents are commonly employed by firms with the objective of creating innovative products or processes. Design patents, on the other hand, are the focus of aesthetic differentiation for new or existing products. Plant patents serve an important role in the development of greater food production methods and genetically modified strains of plant that produce more and better withstand environmental pressures.

- **Discussion:** Why do you think these three types of creation are granted specific categories of patent protection? Why do you think the period of protection differs among these types of patents?
- **Practice Questions:** Patrick developed a native, smartphone application with supporting software capability. He believes that he will be able to commercialize his invention. He is curious as to what type of intellectual property protection he should pursue?
- **Resource Video:** <http://thebusinessprofessor.com/what-are-the-types-of-patent/>

## 7. What are the general requirements for an invention or discovery to be capable of patent protection?

The subject of a claimed patent must be eligible for patent protection. Eligible subject matter varies slightly depending upon the type of patent. That is, a design patent must attach to some physical item, while a utility patent has a broader range of potential subject matter. Once determined to be patentable, a specific subject matter must be “novel” and “non-obvious”. These two requirements apply to all types of patents. Utility patents have an additional requirement and must also be “useful”.

*Novelty* - To qualify for patent protection, a creation must be novel. Novelty, in this context, goes beyond the requirement for newness. The subject matter cannot have previously been used, sold, or the subject of patent by another inventor within a year of the patent filing. In summary, this means that the patented item does not currently exist in the claimed form. There are two standards for novelty: 1) the time that the item is disclosed to the public and 2) the time of filing.

- *Time of Disclosure:* The subject of the patent cannot be known, used, or printed in a publication in this country prior to its creation in the US. The creation may be known or used in a foreign country, but it cannot be in a printed publication in a foreign country before it is created in the US. This generally means that if the item was previously known or in use by the public prior to the date of disclosure by the patent filer, it cannot be patented by someone other than the original discloser.
- *Time of Filing Application:* The creation cannot have been previously disclosed to the US public more than one year prior to the filing of the patent application. This means that the item cannot be advertised or in use by the general public. It cannot have been the subject of a patent application in the US or any other country. Further, it cannot be used or described in any publication prior to the application for patent.
  - *Note:* This generally means that once the item is disclosed to the public, the discloser has one year to complete the patent filing process.

*Non-Obviousness* - The non-obviousness requirement means that someone having ordinary skill in the field would not have a ready knowledge or understanding of the invention. That is, it cannot be readily or commonly understood to the average person in that field or industry. The average person in the field or industry is known as a Person Having Ordinary Skill in The Art (PHOSITA). Basically, if a creation is a logical embodiment of existing knowledge (items of creation already exposed to the world) it will not be eligible for patent protection. As such, the USPTO will examine all prior creations (prior art) in that field to see whether the PHOSITA would deem the proposed creation to be non-obvious.

- *Note:* Simply changing the basic design, size, or arrangement of an existing invention may be an obvious modification to the existing creation. As such, it would lack the element of non-obviousness. External factors,

such as commercial success of the invention, may indicate that there is a novel aspect of the product in the marketplace.

*Usefulness* - Lastly, a utility patent (but not a design or plant patent) must be “useful”. This means that there must be some benefit or operational purpose to the invention. The petitioner must demonstrate that the creation serves an intended purpose. Even if the item is not currently in use and serving a purpose, it must address some theoretical need that could arise in the future.

- *Note:* In the commercial context, a product or process that does not address any identifiable need or want of any potential end user is likely not useful.
- **Discussion:** Why do you think the USPTO requires these elements (novelty, non-obviousness, and usefulness) when granting patent protection? Do you think each of these elements are necessary or should be required? Why or why not? What do you think about the PHOSITA standard for determining non-obviousness? Can you think of other efforts or showings that should be present?
- **Practice Question:** Patrick developed a native, smartphone application with supporting software capability. He believes that he will be able to commercialize his invention. He is curious about what he will have to demonstrate about his application in order to receive utility patent protection?
- **Resource Video:** <http://thebusinessprofessor.com/requirements-of-a-valid-patent/>

### 8. What are the specific requirements for a creation to receive design patent protection?

Design patents apply to "the visual ornamental characteristics embodied in, or applied to, an article of manufacture." So, the subject matter of a design patent application must be the ornamental characteristics applied to a physical item. More specifically, the design patent protects non-functional, purely form (shape or configuration) and aesthetic aspects of a patentable subject matter. The item must still meet the subject-matter requirements for a patent, as the design must be inseparable from the item to which it is attached. The design of the creation must also meet “novelty” and “non-obviousness” requirements. The design does not have to have “utility” (usefulness), as the protected creation is ornamental rather than functional in nature.

- **Discussion:** How do you feel about the ability to protect an ornamental design through patent? How are designs unique in nature from creations with function or utility? Are the objectives behind protecting these rights similar? How are they different?
- **Practice Question:** Leni is a seamstress. She has been brainstorming some unique dresses for infants and young girls. She is scared to let anyone see her designs for fear that they will be copied. If Leni wants to commercialize her designs, what type of intellectual property protections should she pursue and what will she have to demonstrate to achieve that protection?
- **Resource Video:** <http://thebusinessprofessor.com/requirements-for-a-design-patent/>

## 9. What are the specific requirements for a creation to receive utility patent protection?

A utility patent protects how something functions or the method in which it is employed. The subject matter of a utility patent is any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof. It may also include improvements on any of these inventions or discoveries that meet the previously-discussed requirements for patentability. The types of patentable subject matter are as follows:

- *Process* - This involves a method of carrying out an activity. It may also involve the effort exerted to effectuate a change in a physical material that alters its character. This includes methods of communicating information, processes or methods (unique sequences of steps) in addressing a business objective.
  - *Example:* A patentable processes could include computer software, a method of engineering a product, a method of valuing stocks, etc.
- *Machine* - This is a device or combination of devices that has some function or utility.
  - *Example:* A machine is a functional device (mechanical or electronic), such as a jackhammer or robotic device.
- *Manufacture* - An article of manufacture is a finished creation that has utility but may not be mechanical or have moving parts.
  - *Example:* Tupperware is an article of manufacture that has utility but is not a machine. Other examples may include a double-walled thermos, spiral notebook, folded corrugated box.
- *Composition of Matter* - Any mixture of ingredients or materials to form a new chemical compound or matter.
  - *Example:* A composition of matter may include special forms of rubber, plastic, glue or cement, and pharmaceutical drugs. It may also include genetically altered (or isolated) aspects of plants or organisms.

While novel inventions or discoveries may be susceptible of patent protection, there are several categories that are not capable of being patented:

- *Naturally Occurring Substances* - Examples would include naturally occurring minerals or elements.
- *Laws of Nature* - Examples include gravity, inertia, or atrophy.
- *Physical Phenomena* - Examples may include the northern lights, earthquakes, tornadoes, hurricanes, and plant or animal growth.
- *Abstract ideas* - Examples may include scientific hypotheses, such as the big bang theory or human evolution.
- *Fundamental Truths* - Examples may include religious or political beliefs innate to a system of belief or governance, such as the ideas that all individuals are created equal.
- *Calculation Methods* - Examples of methods of calculating things include Celsius, Fahrenheit, or Jules.

- *Mathematical Formulas* - Examples include mathematical formula that demonstrate or explain activity, such as  $E=MC^2$ .

These categories include practically everything made by humans and the processes for making those things. Remember, once the utility patent meets the subject-matter requirement, the application must demonstrate that it is “novel”, “nonobvious”, and “useful”.

- **Discussion:** How do you feel about these categories of patentable subject matter? Why do you think the above-listed items are excluded from patent protection? Can you think of other classes of item that should be patentable or excluded from patent protection?
- **Practice Question:** Ernie is a psychologist. He devised an effective question and answer examination used to determine the compatibility of a new employee within the current workforce. The actual questions he uses are less relevant than the pattern and consistency of applicant answers. He is wondering if his evaluation method is the type of creation that is capable of patent protection. What do you think?
- **Resource Video:** <http://thebusinessprofessor.com/patentable-subject-matter-for-a-utility-patent/>

### 10. What is the process and information necessary for securing patent rights?

Obtaining a patent requires submitting a patent application and filing fee to the USPTO. There are no common law or state patent protections. A patent attorney at the USPTO will review the application to make certain that the intended patent meets all requirements. Notably, the applicant must file the patent application within one year of publicly disclosing the invention (including presenting or selling it) to meet the novelty requirement.

The various elements required in a patent application include the following:

- *Preamble* - The preamble contains the Name of Applicant, Title of the Invention/Design, and Description of the Creation. A utility patent may require background information about the invention or creation process. This section contains what is commonly referred to as the specification(s), which describes how the underlying invention or design will be used. In a utility patent, the applicant will give a detailed description of the invention. It should describe the utility of the invention and how it is differentiated with regard to other art in the field. The applicant will also describe the “best mode” of production of the invention. This section may also include references to or elaborate upon the description of the individual portions of the drawings.
  - *Note:* The detailed description should provide sufficient information to allow a person skilled in this type of invention (PHOSITA) to use or employ the invention. The PHOSITA should not have to undertake much work or further study to employ the creation.
- *Cross-References* - Often a patent builds upon existing art or patented designs. If this is the case, the application should include a citation to any Cross-Referenced Patents.
- *Figure Descriptions* - These are descriptions of referenced sections of drawings of the claimed invention or

design.

- *Claims* - The claim is the claimed aspects of the creation or design that is the subject of the patent application. Utility patents will generally contain multiple claims targeting specific aspects of the invention. In a design patent application, because the entire design (including all individual components) is considered in the design application, only one claim is allowed.
- *Drawings and Images* - A patent application should include detailed drawings of the claimed invention or design. This is very important for the patent examiner to determine whether the claimed invention or design is patentable, as this is what makes it patentable subject matter. The applicant should include as many views (perspective, section, cut away, detail, etc.) of the item as is needed to thoroughly describe each portion of a claim, number each portion of the invention, provide its source (prior patent reference), and provide a brief description of it.
- *Oath or Declaration* - Lastly, the application must contain a statement certifying that the petitioner is the claimed inventor or designer, as these are the only individuals who can secure patent protections.

The patent application generally requires a filing, search, and examination fee. Once the application and fees are received, the USPTO patent examiner will conduct a search for previously filed patents or applications. The purpose of this search is to determine whether the particular creation exists or has been previously disclosed to the public, as the previous creation or disclosure of the invention may disrupt the ability to secure patent rights. If all conditions are met and the search does not return conflicting patent claims, the USPTO will grant the patent and the patent will be recorded in the federal database. The patent owner must make annual maintenance filings and fees to maintain the patent.

- **Discussion:** What do you think about the elements required of a patent application? Why do you think these elements are specifically required? Can you think of other aspects about the invention that could be relevant to determining whether patent rights should be awarded.
- **Practice Question:** Garth is considering filing a patent application to protect his new invention. Can you explain to him the elements of the patent application?
- **Resource Video:** <http://thebusinessprofessor.com/process-for-filing-for-patent-protection/>

### 11. What is a provisional patent application?

#### *Overview*

A provisional patent is a utility patent filing that does not necessarily include any claims. Pursuant to patent law, the filer can file a complete provisional patent within one year of the first public use or offer for sale of the invention. This then allows the filer one year from the date of disclosure to file for a non-provisional, utility patent. Basically, the provisional patent allows inventors to file and disclose the invention to the rest of the world. If the non-provisional patent is filed within the year, the date of filing of the non-provisional patent is retroactive back to the date of filing of the provisional patent. This allows an inventor one year of protection while she is still developing the attributes of the invention that will later be claimed for patent protection.

- *Note:* The non-provisional patent application must reference the provisional patent filing. Failing to file a non-

provisional patent application results in any protections offered by the provisional patent being lost and the creation cannot be subsequently patented.

### *Benefits*

The benefits of completing a provisional patent filing are as follows:

- *Public Disclosure* - This disclosure starts the one-year period to file a non-provisional patent. Filing the provisional patent provides for an initial year of protection, as the non-provisional patent application will back date to the filing of the provisional patent;
- *Continued Research & Development* - The non-provisional patent provides protection while continuing to develop the product and research the market. The inventor can spend the time developing the claimed elements of the invention to incorporate into the non-provisional application;
- *Pre-marketing* - Filing the provisional application allows the inventor to market the product with a degree of protection while the non-provisional patent application is in the works;
- *Public Notice* - The filing provides notice to the world that the creation (to the extent disclosed) is or will be subject to intellectual property rights (i.e., “patent pending”) and should not be copied for commercial purposes;
- *Confidentiality* - Leaving off the claimed attributes keeps elements of the patent confidential (as it is not yet fully disclosed to the public); and
- *Multiple Filings* - The filer can file multiple provisional patents and later incorporate them all into a single, non-provisional patent application.

- **Discussion:** How do you feel about the concept of allowing individuals to file a provisional patent? Are you convinced the benefits of this type of patent filing are necessary or deserved? Why or why not? Can you think of any downsides to making a provision patent filing?
- **Practice Question:** Bernard is working on computer software that allows businesses to automate a great deal of its marketing functions. He is considering filing a provisional patent application. What are the benefits to Bernard of making such a filing?
- **Resource Video:** <http://thebusinessprofessor.com/what-is-a-provisional-patent/>

## 12. What is the process for enforcing one’s patent rights?

If anyone infringes upon a patent holder’s valid patent, the holder may bring a federal lawsuit to prevent further use and to seek recovery of damages suffered as a result of the infringement. The patent holder must file a legal action in the federal district court with jurisdiction over the defendant. At the time of filing, the patent holder will state the grounds for the action and request a preliminary injunction against infringement during the pendency of the hearing. The court will review the circumstances to determine whether an injunction is warranted. The grounds for the action must demonstrate one of the following types of infringement:

- *Direct Infringement* - This means the direct production and sale of a product protected by patent.
- *Indirect Infringement* - This means inducing or encouraging an infringer.
- *Contributory Infringement* - This means assisting in the infringement process - such as producing parts or elements of an invention that are known will be assembled into a patent-infringing product.
- *Literal Infringement* - This means that the infringing product or process directly infringes some of the stated terms in the patent filing.
- *Doctrine of Equivalents* - A creation that does not literally infringe upon an invention as written in the patent may still be an infringement if it functions the same manner to achieve the same function. This doctrine is commonly employed in mechanical devices and computer software.

- **Discussion:** How do you feel about the different methods of infringing upon someone's patent? Why do you think the law allows for these different methods of infringement? Do you agree or disagree with any or all of these methods? Can you think of any other uses of a patented creation that should constitute infringement?
- **Practice Question:** Franz invents a coffee maker that injects hot water under high pressure into disposable cups by piercing the top of the cup. The machine filters the coffee before it flows into the consumer's cup. He files and receives utility patent protection of his invention. Gretchen likes the idea and designs a very similar machine that makes coffee by injecting hot water under high pressure into disposable cups by piercing the side of the cup. The machine filters the coffee in a different method. If Franz believes Gretchen has infringed upon his patent, what are his options for demonstrating patent infringement?
- **Resource Video:** <http://thebusinessprofessor.com/process-for-enforcing-patent-rights/>

## TRADEMARK LAW

### 13. What is a Trademark?

A trademark is a form of intellectual property right dedicated to any word, phrase, sign, symbol, logo, color, sound, design, shape, decor, or other distinctive element (collectively known as a "mark") that represents a business, brand, or commercial activity (sale of the product or services). The trademark allows a consumer to identify the business or commercial activity associated with the mark. That is, trademark rights come about from use of the mark in association with goods or services. Trademark law has two objectives:

- *Business Protection* - It allows the owner of the trademark to prevent others from infringing upon that business's identity, and
- *Consumer Confusion* - It protects consumers from confusion regarding the business or commercial activity represented by the mark.

Businesses seek to secure trademark rights to protect their company, brand, or image. They do not want other companies

to benefit from their branding efforts by creating customer confusion as to the source of a given good or service. Even if a customer is not confused, very similar marks can destroy the distinctiveness of a company's mark, thereby making it less recognizable by customers. As such, enforcing trademark rights is an important tool in securing and expanding a business's brand. Without trademark protection, competitors could easily detriment a competing brand by mimicking that brand's mark.

- **Discussion:** How do you feel about the objectives behind granting trademark protection? How does this compare to the objective of granting patent protection? Can you think of any other benefits that a trademark provides for a business?
- **Practice Question:** Holly is launching a clothing line. She is weighing the advantages and disadvantages of seeking trademark protection for her company brand. Can you explain to Holly the purpose of the trademark and the benefits to the business and public?
- **Resource Video:** <http://thebusinessprofessor.com/overview-of-trademarks/>

### 14. What are the types of trademarks?

The term trademark is commonly used to refer to a broad range of protected marks, including:

- *Trademark* – Any mark, word, picture, or design that attaches to goods to indicate their source.
- *Service Mark* – A mark associated with a service.
- *Certification Mark* – A mark used by someone other than the owner to certify the quality, point of origin, or other characteristics of goods or services.
- *Collective Mark* – A mark representing membership in a certain organization or association.
- *Trade Dress* - Trade dress is broader than a single mark. It protects the overall appearance of a business, product, or service. It may include colors or shapes, architectural design, distinctive store decorating motifs or package shapes and colors. It encompasses the “total image and overall appearance” of a business.
  - *Example:* Think about the shape and color of a Pizza Hut or Taco Bell. These brands are identifying by the overall distinctive appearance of its buildings.

Business names or trade names may be the subject of trademark protection. The name must represent the business, product, or brand.

- **Discussion:** Why do you think the USPTO recognizes multiple classes of mark? Had you previously ever heard of these specific classes of mark? Which one in the group of trademarks is dramatically different than the rest?
- **Practice Question:** Ellen wants to file for trademark protection of the mark that she uses to represent her business.

What are the types of trademark and what do you need to know to determine what type of trademark she will be filing?

- **Resource Video:** <http://thebusinessprofessor.com/types-of-trademark/>

### 15. What is required to secure trademark protection?

Trademark law requires that a mark be “used in commerce” and “distinctive” from other marks. If a mark is used in commerce and sufficiently distinctive, there are two primary methods of securing trademark protection. The first method is “state-law protection”. State-law protection may include both statutory protection and common-law protection of the trademark rights within a particular state’s borders. The trademark is subject to protection if it meets all of the qualifications for protection and is used to identify a good or service sold within the state. The second method is “federal protection” resulting from registering the mark with the US Patent and Trademark Office and using the mark in interstate commerce. Each of these requirements and methods of establishing trademark rights is discussed separately.

- **Discussion:** Why do you think state law and federal law provide for trademark protections? Can you think of any initial benefits from securing trademark protection under state and federal law?
- **Practice Question:** What are the two types of trademark protection that may exist at the state or federal level? What are the common elements between these methods of protection?
- **Resource Video:** <http://thebusinessprofessor.com/capturing-trademark-rights/>

### 16. What is the “distinctiveness” requirement for trademark rights?

A proposed trademark must be “distinctive”. This means that the mark cannot be so similar to another mark that it causes consumers to confuse the brand or entity associated with that mark. If it is confusing to the consumer, the USPTO will reject the application for registration. So, the likelihood of confusion is partially based upon the mark and partially related to the nature of the product or service that it represents. To determine if a similar mark is being used in commerce, the USPTO trademark attorney will search for registered marks and unregistered marks with common law protection. The attorney will then examine whether the commercial activity represented by any similar marks is related to the commercial activity to be represented by the proposed trademark. If there is a high degree of similarity for both of these factors, it is more likely that the mark will be confusing to consumers. If the mark conflicts with a mark that was registered prior to the proposed mark, the USPTO will reject the registration. If the mark conflicts with another proposed mark that was filed before it, the USPTO will suspend its review and notify the applicant of the conflict.

#### *Classification of Distinctiveness*

A proposed mark may have varying degrees of distinctiveness. The higher the degree of distinction, the less likely it is to confuse customers about the brand or entity that it represents. If a mark is less distinctive, it may require an applicant to demonstrate public perception or recognition of the mark in order for it to be capable of trademark protection. The following are degrees of trademark distinctiveness:

- *Arbitrary and Fanciful terms* - A “fanciful mark” has no other meaning. It is created to represent the commercial

activity claiming trademark rights. An “arbitrary mark” is the association of an existing word or symbol with a commercial activity that has no relation or logical connection to that mark. If a proposed trademark falls under either of these categories and is not already used by another business, it is automatically recognized as inherently distinctive.

- *Example:* Yahoo, Bing, Google, Starbucks, Verizon, and Exxon are all examples of fanciful terms. Many of the logos, sounds, or non-sensical expressions associated with companies would also be fanciful. Apple computers, Camel cigarettes, Colt pistols, Amazon web services, Subway restaurants would all constitute arbitrary words. Further, the images or logos used in connection with these brands would be arbitrary, such as Ronald McDonald or the GEICO lizard.
- *Suggestive Marks* - A suggestive mark somehow suggests the underlying business or entity represented by the mark. It does not describe the entity, or its product or service, but something about the mark somehow relates to or helps the consumer understand the brand or entity that the mark represents. It generally requires a certain level of cognition, creativity, or imagination in how the product is perceived.
  - *Example:* Citibank, Inc., Playboy, Inc., Microsoft, Coppertone, are all words used as suggestive marks to represent a brand or commercial activity. While less common, the symbols used by a company may also suggest the commercial activity, such as the Zappos shoe symbol or Yankee’s baseball logo.
- *Descriptive Marks* - A descriptive mark, as the name implies, describes in some way the product or service represented. This can include information about or allude to the nature, characteristics, geography, or qualities of the product or service. To qualify as a mark, the owner must demonstrate that the mark has achieved “secondary meaning” beyond the literal definition of the mark. Secondary meaning is when consumers associate the mark directly with the brand or business rather than simply a general description of the brand or company’s primary commercial activity. This requirement ensures that there is no confusion between the literal meaning and the brand or commercial activity.
  - *Example:* Chick-Fil-A, Home Depot, American Apparel, First Bank, Pizza Hut are all examples of descriptive marks. All of these companies have names that describe their business; but, the business names are now commonly understood by customers to represent the particular business rather than a general commercial activity. It is far less common that an image or logo will be descriptive unless the symbol incorporates a descriptive word, phrase, or slogan.
- *Generic Marks* - A generic mark is not capable of trademark protection. Generally, the mark is not distinctive because it represents a type or class of commercial activity (product, service, etc.). A valid mark may become generic if the mark begins to describe every product or service of that type. That is, it no longer makes the specific product or service distinctive.
  - *Note:* A business mark that is becoming generic will fight to restore its distinctiveness for that business’ product or service. This is the case with Xerox, Chapstick, and Google.
  - *Example:* A generic mark may include aspirin, laundromat, car, band-aid, kleenex. All of these were once brands that later became synonymous with the product or service.

- **Discussion:** How do you feel about the USPTO distinctiveness requirement? Should a company be able to register a mark that is already being used? Why or why not? Should it matter if the mark is being used to represent an unrelated commercial activity? Why or why not? Should descriptive marks be allowed to be trademarked? Why or why not? Should arbitrary, fanciful, and suggestive marks be required to achieve secondary meaning? Why or why not? Do you think the law should allow a trademark to become generic because of popular use and generic association by consumers? Why or why not?
- **Practice Question:** Darla is launching her new pet product line. She has is going back and forth between Perfect Pet Products and Octep, which is Pet Co spelled backwards, as her business name. If Darla plans to trademark the business name, what analysis of each name will the USPTO undertake in determine whether the name is sufficiently distinctive?
- **Resource Video:** <http://thebusinessprofessor.com/distinctiveness-requirement-for-trademark/>

### 17. What is the process for determining whether a descriptive mark is sufficiently distinctive?

A descriptive mark must acquire a secondary meaning in order to be sufficiently distinctive to be protected by trademark law. Arbitrary, fanciful, and suggestive terms do not require that the mark have a secondary meaning, as they are sufficiently distinctive by their nature. The first step in the analysis is to determine whether the mark is indeed descriptive of the product or service. The trademark office or a court will use several tests to determine whether a mark is descriptive (as apposed to arbitrary and fanciful, suggestive, or generic).

- *Dictionary Test* – This test seeks to determine the ordinary significance and meaning of the word as demonstrated by a dictionary. This provides evidence of how the general public would encounter the mark.
- *Imagination Test* – This examines whether the meaning of the mark is obvious, or whether it requires some level of imagination or thought to determine the represented good or service. If a high degree of cognition is required, the mark is likely suggestive rather than descriptive.
- *Competitor Need or Use* – Do competitors need to actively use the claimed mark for their customers to recognize or understand what their product or service does. If so, this is evidence of descriptiveness of the term, and the strong presence of secondary meaning for the specific business can make it an enforceable mark. This can also indicate that the mark is generic in nature and not capable of protection.

The next step is to determine whether the trademark has achieved secondary meaning that is separate from its descriptive nature. Secondary meaning requires that the mark draw reference to the business, rather than the product or service itself. Specifically, secondary meaning is present when, “in the minds of the public, the primary significance of the symbol is to identify the source of the product rather than identifying the product itself.” A court may use various forms of evidence to determine whether secondary meaning exists:

- *Direct Evidence* - Direct input from customers, such as through testimony or surveys.
- *Indirect Evidence* - Indirect evidence may include:
  - *Exclusivity* - Whether the business exclusively uses the mark, or how it is used in the market and for how

long;

- *Advertisement* - To what extent does or has the business advertised the mark as a representation of the business;
- *Market Presence* - What presence does the mark have in the market (market percentage or market awareness of the brand as a result of the mark); and
- *Competitor Use* - Proof that other businesses intentionally copy the mark to achieve market awareness of their business.

- **Discussion:** Why do you think the USPTO requires a descriptive mark to achieve secondary meaning for the mark to be protectable under trademark law? How do you feel about the above-referenced tests for determine descriptiveness and secondary meaning? Can you think of any other methods of demonstrating descriptiveness? Can you think of any other factors to review when determining whether a mark has achieved secondary meaning in the market?
- **Practice Question:** Dominique runs a small sewing shop. She uses the name, The Sewing Shop to represent her business. She now seeks to trademark the name federally by filing with the USPTO. What analysis will the USPT undertake to determine whether the mark is capable of trademark protection?
- **Resource Video:** <http://thebusinessprofessor.com/secondary-meaning-for-descriptive-marks/>

## 18. What is Federal Registration of a Trademark (Lanham Act)?

Federal registration of a trademark is the process for filing for federal protection of a mark representing a business or commercial activity. The federal statutes governing the registration of trademarks are found in 15 USC, sections 1051-1127. This group of laws is known as the “Lanham Act”. The registration process is managed by the US Patent and Trademark Office, a federal administrative agency. The USPTO issues regulations and rules that govern the trademark registration and maintenance process. Federal courts addressing trademark law create law (“common law”) that also guides or controls the body of trademark law. The common law generally applies to disputes as to ownership and enforceability of trademark rights.

*Federal Registration* - Federal registration requires that a trademark application meet the aforementioned requirements and be used in “interstate commerce”. This generally means that the mark is used in a manner that is not solely limited to in-state activity. If a business is not currently using the mark in commerce, it may file an “intent-to-use” application along with a filing fee. This allows an 18-month period to begin using the mark in commerce. The filing requirement arises every 10 years following the initial filing. The holder will have to file an “affidavit of use” five years after the date of filing to certify that the mark is still in use. Unless a mark was previously used and abandoned, only the original user of a mark in interstate commerce may register the mark with the USPTO.

*Benefits of Federal Registration* - Federal registration affords the trademark user additional protections beyond the statutory and common law protections afforded under state law. Some of the major advantages of federal registration of a trademark are as follows:

- Protection in every jurisdiction across the United States;
- Creates a presumption that the registration is valid in the event of a dispute over trademark rights;
- Provides notice to third-parties that the mark is in use;
- Allows for a federal cause of action against an infringer (and there is a presumption of willful infringement);
- Aids in the process of international registration; and
- Allows for the mark to be registered with the US Border and Customs Administration to prevent the importation of counterfeit goods.

The benefits of federal registration are not exclusive. An individual with federal trademark rights may also secure state-law protections.

- **Discussion:** How do you feel about the ability of a business to secure trademark rights all across the US? Should it matter that the business does not conduct business in all states? Why or why not? Are you convinced of the need for federal registration by the above-referenced benefits?
- **Practice Question:** Karl is a small business owner with dreams of expanding his business across the country. He is seeking trademark rights for his business name. Can you explain in a memo the benefits of pursuing federal trademark registration?
- **Resource Video:** <http://thebusinessprofessor.com/federal-registration-of-a-trademark/>

### 19. What is trademark protection under state law?

#### *Overview*

States often pass statutes or provide administrative procedures allowing the public to file or register trademarks that are used in commerce within the state. These states will also provide statutory protections and causes of action against those who infringe upon an individual's state-recognized, trademark rights. In addition to the statutory protections provided by some states, every state provides for common-law protection of trademark rights. That is, an individual has the ability to legally enforce her rights in a trademark *via* state, common-law remedies. State common-law protection of trademark rights arises when an individual or business is the first to use a particular mark in business or commerce within the state and no other business has federal trademark protection.

- **Example:** An individual or firm employs a mark in an attempt to sell a product or service to the public. The mark is not used by another firm within the state and is not subject to federal trademark protection. The individual or firm using the mark is automatically protected under common law in the state where the mark is used in commerce.

#### *Limits on State Trademark Protection*

State trademark protections have significant limitations. First, the mark is not protected in areas outside of the state. As such, a business may acquire statutory or common law protection only in the states in which it carries on commercial activity. If someone infringes upon the mark by employing a confusingly similar mark within the trademark holders area of commercial activity, the trademark owner may bring an action to halt use. If, however, someone uses a confusingly similar mark in an area where the firm has not registered or does not carry on commercial activity, no remedy is available. As such, the individual using the infringing mark in another state may effectively lock out the original user of the mark from employing the mark within that jurisdiction. It comes down to a system of first to register or first to use the trademark in commerce in that jurisdiction.

- **Discussion:** Why do you think states offer statutory and common-law protection of trademark rights? How does state, common-law protection of trademarks relate to the concept of property rights? How do you feel about the ability of a business to claim trademark rights under state law by being the first to use that mark in the state?
- **Practice Question:** Billy has a small consulting business named Peak Perform Consulting that is organized in the state of Alabama. He provides consulting services throughout the states of Georgia, Alabama, Florida, Louisiana, and Tennessee. He is looking into opening an office in South Carolina when he learns that a professional services firm named Peak Performance Consulting already exists. Will Billy be able to use his company name in the state of South Carolina? What other information do you need to know about this situation to fully answer this question?
- **Resource Video:** <http://thebusinessprofessor.com/state-protection-for-trademarks/>

### 20. What are the primary reasons for denying claims of trademark rights?

Whether pursuant to common law, state or federal registration, there are several common reasons for denying trademark protection of a prospective mark. Some of the more common reasons are as follows:

- the mark is the same or similar to a mark currently used on similar related goods;
- the mark merely describes a product or service;
- the mark is generic and represents a product or service; or
- the mark contains certain prohibited or reserved names or designs.

Pursuant to the USPTO examination guide, there are certain characteristics of marks that cannot be registered. The following is a non-exclusive list of several major types of these marks:

- contains the US Flag;
- coats of arm;
- insignia of the United States, any state or municipality, foreign nation, or any simulation thereof;
- are in some way immoral, deceptive, or scandalous;
- trade names (that are not used to identify the goods or services);
- trade dress that has functionality or lacks distinctiveness;
- purely ornamental or decorative marks;

- color marks that are not distinctive;
- universal symbols used incorrectly;
- immoral or scandalous matter;
- deceptive matter;
- matter that may disparage;
- matter that may falsely suggest a connection (with persons, institutions, beliefs, or national symbols);
- matter that may bring someone into contempt or disrepute;
- contain the name, likeness or signature of living persons without their consent; and
- are too similar to existing trademarks registered with the USPTO

- **Discussion:** How do you feel about the reasons for denying trademark protection? Why do you think the above-listed types of trademark are not capable of protection? Are there any types of trademark that you believe should be included on or excluded from the list?
- **Practice Question:** Eric decides to start a sporting goods company. He designs an emblem to represent the business. When he applies to the USPTO for federal protection, the application is denied. What are some of the potential reasons the emblem was denied trademark protection?
- **Resource Videos:** <http://thebusinessprofessor.com/reasons-for-rejecting-a-trademark/>

## 21. What are common trademark designations used to indicate a claim of trademark rights in a mark?

The traditional trademark designation is (“TM”) or <sup>TM</sup>. Anyone who uses a distinctive mark may employ this symbol to put others on notice of the trademark claim. If a trademark is registered with the USPTO, the trademark owner can use the symbol ®.

- **Discussion:** What do you think are the primary benefits of including a symbol to demonstrate claimed or registered trademark rights? Can you think of any disadvantages?
- **Practice Question:** Eliot wants to put the world on notice that he claims trademark protection of the symbol representing his business. He has filed for federal protection with the USPTO but no trademark rights have yet been awarded. What are Eliot’s options for including a trademark designation beside his company’s symbol?

## 22. What is the process for filing a federal trademark protection?

The application for federal trademark protection follows a standard process. The following information is required for every trademark application:

- *Petitioner Information* - Name of applicant; address for correspondence (may be name and address of agent).
- *Mark* - The petition must provide a demonstration of the mark, such as a rendering, photo, or computer image. This will include an indication of whether the mark is made up of standard characters or whether it is dependent upon a particular design of the characters.

- *Nature of Business* - The petition must designate of class of or actual product(s) or service(s) represented by the mark.
- *Filing Fee* - The application must accompany the corresponding filing fee.

Upon receipt of a completed application, the USPTO will assign a serial number to the application and return a receipt of filing to the filer. The trademark attorneys at the USPTO may have additional questions or require additional information of the filer. The proposed mark does not receive federal trademark protection until it is approved by the USPTO. The mark holder may use the trademark symbol ("TM"), but may not use the registered trademark symbol ("®") until the filing process is complete.

- **Discussion:** What do you think about the process for applying for federal trademark protection? Do you think this has the effect of incentivizing individuals to rely solely upon state rights? Why or why not?
- **Practice Question:** Mark is considering filing for trademark protection of the logo representing his business. Can you explain to him what is required to file a federal trademark application?
- **Resource Video:** <http://thebusinessprofessor.com/process-for-filing-a-federal-trademark/>

### 23. What is trademark infringement?

Trademark infringement involves the unauthorized use of the protected mark or a similar mark to represent a business, brand, goods, or services, other than those of the trademark holder. The use of the mark must create a strong likelihood of confusion for consumers as to the origin of the goods or services. This generally means that the mark must be used to represent competitor business, brands, goods or services. The most common form of trademark infringement is through the production and sale of counterfeit goods.

- *Note:* It is a crime to traffic in counterfeit goods under the Stop Counterfeiting in Manufactured Goods Act (SCMGA). Penalties include imprisonment of up to 10 years and a fine of up to \$2 million.
- *Example:* ABC Corp produces a generic brand of sunglasses that looks like a common model of Oakley sunglasses. ABC affixes a symbol that looks very similar to the Oakley trademarked symbol. This would be infringement through use of a similar mark on competing goods that is likely to cause consumer confusion as to the origin of the product.

#### *Dilution*

Another form of infringement is known as "dilution". Dilution concerns the harm to a famous mark caused by unauthorized use with non-similar goods in a manner that is not likely to cause confusion. That is, the law prevents use of certain trademarks (well-known or famous marks) by anyone other than the holder, even if there is no risk of consumer confusion. The idea is that use of the trademark may dilute the brand value of the federal trademark holder. Using a derivation of a company's logo for a non-related product may reduce the notoriety or public recognition of the logo with the brand of the trademark holder. Dilution can occur through use of the protected mark or a confusingly similar mark. Pursuant to the Federal Trademark Dilution Act of 1995 and Trademark Dilution Revision Act, dilution of a trademark

occurs when:

- A trademark becomes so commonly known by the public that it is considered “famous”;
  - *Note:* This goes to the distinctiveness of the mark.
- A third party (alleged infringer) is using a mark in commerce that causes the trademark to lose its distinctiveness in the market;
  - *Note:* The third-party’s use of a similar mark with a non-related product causes the mark to no longer be associated with just the holder’s business, brand, product, or service.
- The similarity between the defendant’s mark and the famous mark gives rise to association between the marks; and
  - *Note:* The market does not have to be confused as to the origin of the third-party’s product, but it begins to associate a mark with this third-party’s product.
  - *Example:* I have a trademark on the word ziiiizle, which represents the product I sell. A third party begins selling a non-similar product and calls it a zooozle. The use of a similar mark with a non-similar good starts to cause an association in the market between the marks.
- The association between the marks is likely to impair the distinctiveness of the famous mark or harm its reputation.
  - *Note:* This may include associating it with a brand that makes inferior quality products.

In an infringement action, a party will generally request an injunction against further infringement along with recovery of any damages suffered as a result of the infringement. The Lanham Act allows for the recovery of any profits generated by the infringer as a result of the infringement.

- **Discussion:** How do you feel about the requirement that a mark cause consumer confusion to be infringement? Do you think this should be based upon the similarity of the mark as well as the business, brand, product, or service that it represents? Why do you think courts recognize dilution of a mark when an alleged infringing mark does not create customer confusion? How should a court evaluate whether a mark is famous and whether its reputation in the market is being harmed?
- **Practice Question:** Garth has a pet product business that concentrates on making the highest quality doggy chew toys on the market. The price of the toys reflect its high quality. He trademarks the name Tuff Toys for the product line. Harriet’s business makes outdoor play toys for kids to take to the beach. They are very cheap and low quality. Parents buy them because they expect them to be lost or destroyed after a couple of days of play on the beach. She calls the product lines Tough Toys. Is there any argument that Harriet is infringing upon Garth’s trademark?
- **Resource Video:** <http://thebusinessprofessor.com/what-is-trademark-infringement/>

## 24. How does an individual enforce Trademark Rights?

If a claimed trademark (that is in commercial use) conflicts with another, the method or ability to enforce the trademark will vary depending on the rights associated with the mark.

- *State Law Rights* - States that allow for trademark registration often establish procedures and causes of action for enforcing trademark rights against infringers. In the absence of a state statute, common law rights in a mark can be enforced within the jurisdictions in which it is actively used. If the businesses are geographically separated, it may provide a buffer of protection against infringement. Recall, a business may use a mark in a jurisdiction where the similar mark is not used in commerce. In the event of an conflict in the same jurisdiction, the cause of action may be pursuant to a state conversion or equitable remedy. A court may award damages or an injunction against further infringement. To recover damages, a plaintiff must demonstrate actual damages. These actions are filed in state trial courts and are entitled to the same procedural rights as other state-law actions.
    - *Note:* This can be difficult for businesses that provide services over the Internet, as the reach is likely to be national.
  - *Federal Registration* - A federally registered mark can be enforced throughout the United States. Enforcement of a trademark generally begins with a “cease and desist” letter. This letter is a communication sent by the owner of a mark to the user of an allegedly conflicting mark demanding the user stop using that conflicting mark or stop using it in the current manner. If the user of the infringing mark fails to comply with the demand, the next option is to either file a state or federal court action seeking to enjoin the infringement. The complaint will allege a violation of federal law. The plaintiff may request any damages she has suffered as a result of the infringement. Federal infringement actions involving a registered mark allow for the recovery of attorney’s fees incurred in enforcing the trademark.
- **Discussion:** What do you think about the methods of enforcing trademark rights under state and federal law? Are there advantages and disadvantages of each method?
  - **Practice Question:** Raymond uses a mark to represent his business in Tennessee and Virginia. He previously filed for federal protection with the US Patent and Trademark Office. He recently learned that another business in Tennessee is using a confusingly similar mark to represent its business. Raymond believes that this third party is infringing upon his trademark. What are Raymond’s options for bringing a state or federal lawsuit against the alleged infringer?
  - **Resource Video:** <http://thebusinessprofessor.com/enforcing-trademark-rights-2/>

## 25. How does a trademark holder demonstrate infringement of its trademark?

Proving trademark infringement requires a showing that the plaintiff has valid trademark rights and that someone is using another mark that is confusingly similar to the public. That is, the business claiming infringement must show that the other business’s use of the mark causes a high “likelihood of confusion” for the general public regard to the business, product,

or service represented by the mark. In determining whether a mark is confusingly similar, the court will review several aspects of the protected and infringing mark. Some of the primary considerations are as follows:

- *Mark* - How similar in appearance or language are the marks? The court may also look to how the mark sounds when spoken aloud.
- *Business* - How similar are the goods or services represented by the mark? What are the differences? Is the mark used on several types of product or service?
- *Market or Industry* - Are the businesses competitors? Same target markets? Same geography? Same stores? Same type of customer? What is the competitive differences (any differentiation or cost differences)? How are they advertised (similar marketing practices)? What is the economic significance of the mark to each party?
- *Notoriety* - How well known is each mark? How long has each mark been in use? What do customer surveys say about mark and brand association?
- *Intent or Purpose* - Was the alleged infringer aware of the mark before employing her mark? This goes to determining whether the infringement is intentional or inadvertent.
- *Public* - What is the extent of potential confusion to the customer? Will a customer mistake the company or brand behind a product as a result of the mark? Will the customer believe that the placement of the conflicting mark is an endorsement by the owner of the valid trademark?

- **Discussion:** What do you think about the factors a court would employ in determining whether trademark infringement exists? Do any of these factors seem particularly important in a determination? Can you think of any other factors the court should consider?
- **Practice Question:** Mark is the owner of Bait Shop Restaurant. For several months, he has been in a trademark rights battle with another business using the name Bait Shop Restaurant. Mark's business was the first restaurant to use this name. Mark is considering bringing a legal action against the alleged infringer. What will Mark have to demonstrate to the court in order to prevail over the alleged infringer?
- **Resource Video:** <http://thebusinessprofessor.com/infringing-upon-a-protected-trademark/>

## COPYRIGHT LAW

### 26. What is a “copyright”?

Copyright is a form of intellectual property protection applicable to original expressions by the creator. The primary federal law governing copyrights is the Copyright Act of 1976. An “original expression”, for purposes of copyright law, is a very broad term. Section 102 of the Copyright Act identifies several categories of protectable subject matter, as follows: literary, musical, dramatic, pictorial, graphic, sculptural, audiovisual, and architectural works.

Section 102 also excludes several categories: facts, page numbers, mathematical equations, ideas, procedures, processes, systems, methods of operation, concepts, principle, or discovery.

While ideas and facts are not protectable, copyright protects the unique method of expressing ideas or facts. Section 103 specifically identifies compilations of fact that constitute original works as protectable. The facts must be arranged or presented in an original way.

- *Note:* Any work that has entered the “public domain” is not capable of protection.
  - *Example:* Common forms of copyrighted expressions include: literature, music, musical performance, choreography, art, photography, graphic images, sculpture, architectural designs, computer programs, movies or other dramatic works, etc.
- **Discussion:** How do copyrights relate to the intellectual property rights protect by patents or trademarks? Are the objectives for these rights similar?
  - **Practice Question:** Mike is compiling a list of individuals who work in an office building and recording their contact information. He wants to print it as a guide and sell it to individuals in the building. Can he copyright his work?
  - **Resource Video:** <http://thebusinessprofessor.com/overview-of-copyrights/>

### 27. What are the rights of the holder of a copyright?

Copyrights, as do other forms of intellectual property, allow the holder to exclude others from using or copying the protected work. A copyright holder has exclusive rights to the following:

- *Reproduce* - The holder of a copyright has the ability reproduce and distribute the protected work. For example, the holder of the copyright may distribute copies of the work or license the work for reproduction in any format.
  - *Example:* The holder of a copyright on lyrics to a song may license the rights to perform the song to a recording artist.
- *Derivative Works* - The holder may prepare derivative works based on the original work. For example, the holder may employ images, characters, words, or notes from the original work or adopting your work in other formats.
  - *Example:* The holder of copyrights in an image may incorporate that image in a separate work. Similarly, the holder of copyrights in a song may use any portions of a song (lyrics or notes) in a separate song.
- *Distribution* - The holder may distribute copies or reproductions of the work by sale, lease or other transfer of ownership. This generally includes the right to commercially publish the protected work and distribute it through any medium or method of commerce.
  - *Example:* Jay-Z has the exclusive right to sell and distribute any of the songs or albums to which he holds the master rights.

- *Performance* - The holder may publicly perform the work. For example the holder of a copyright in a song may perform the song in public.
  - *Example:* Michael writes a song. He is the only individual who can perform that song without violating his copyright. Other example may include showings of movies, performances of plays, recitations of literary works or skits, etc.
- *Public Display* - The holder may publicly display the work.
  - *Example:* An example would include displaying art, such as paintings or photography, in galleries or exhibits.

In summary, the owner of the copyright may sell, assign, or otherwise transfer her copyright. She may also license any of these rights to third parties. A license is any transfer of rights that are less than complete ownership of the copyright.

- *Note:* A transfer of rights in the copyright must be done in writing and signed by the copyright holder.

- **Discussion:** How do the rights of the copyright holder compare to those of patent and trademark holders? Do you believe these rights are adequate? Why or why not?
- **Practice Question:** Frank is a musician. He regularly composes new musical arrangements. As such, he is the copyright holder of these original creative works. Can you explain to Frank the rights associated with his copyrights?
- **Resource Video:** <http://thebusinessprofessor.com/rights-of-holder-of-a-copyright/>

### 28. What are the requirements for establishing copyrights?

Federal law governs the creation of copyrights. Unlike some other forms of intellectual property, there is no need to file or register the copyright. Copyright protection arises when an expression meets the following requirements:

- *Original Work* - The expression must be the original work or creation of the author. That is, it must be sufficiently distinct from existing works so as to demonstrate some level of uniqueness in the content or organization of the content. This means that the work must be created and not copied.
  - *Note:* Facts are not original works; rather, they are recitations of certain truths. Expressions containing facts can, however, be protected by copyright depending upon the selection and arrangement of those facts.
- *Affixed to a Tangible Medium* - The creative expression must be affixed to a tangible medium. This means that the copyrighted work must be recorded in a tangible format. A tangible format may include recording the work on paper, canvas, hard surface, digital device (such as a camera, hard drive, or video recorder), etc. If an expression is made without recording it to any form of tangible medium, it does not receive copyright protection. In fact, if the expression is communicated to the public prior to being recorded, it may find itself in the public domain and incapable of copyright protection.

- *Creative Expression* - The expression must show some aspects of creativity. The expression cannot be entirely obvious or commonly understood. Logical arrangements of facts lack the required creativity. Forms that simply record information are generally not considered to be creative expressions.
  - *Example:* The alphabetical arrangement of a telephone book is not a creative expression.

As stated above, pursuant to the Copyright Act of 1976, an expression that meets the requirements for copyright receive automatic protection. Federal registration of the copyright is available and does offer unique advantages to the holder of the copyright. Registration puts the world on notice of the copyright. Whether registered or not, the owner of a copyrighted work may use the symbol “© ” to indicate her claimed rights in the work. No form of public notice, such as use of the copyright symbol, is required for protection.

- **Discussion:** How is the process for establishing copyrights different from other forms of intellectual property? Why do you think this is the case? Is there any argument for requiring a copyright holder to provide notice to the public of the claimed copyrights?
- **Practice Question:** Dora is writing a screenplay. She is worried about individuals copying her work and claiming it as their own. Can you explain to her the requirements for securing copyrights in her work?
- **Resource Videos:** <http://thebusinessprofessor.com/elements-of-a-copyright/>

## 29. How long does a copyright last?

The length of time of copyright protection depends upon three factors:

- When the copyright was created,
- The length of the author’s life, and
- Whether the creator was an individual or a firm.

Generally, a work created after January 1, 1978 is automatically protected for a period of 70 years past the life of the last living creator. Works created by entities (by employees or works for hire) are protected for the lesser of 95 years from the date of publication or 120 years from the date of creation. A complicated set of rules applies for calculating the length of protection of a copyrighted work created prior to 1978. In summary, if a work was created, but not published or subject to copyright, similar rules apply as for a work created after 1977. The difference is that a copyright is only guaranteed a minimum of 25 years of protection based the date of creation - until 2002. If the copyright is subsequently published during this 25-year window, the 25-year period is extended to 70 years. If the pre-1978 copyright was subject to copyright protection, the 1909 Act applies to the work. In this case, the work receives 28 years of protection from the date of creation. The protections can be extended for an additional 28 years upon application during the 28<sup>th</sup> year.

- **Discussion:** How do you feel about the divergent methods of determining copyright protections for works before

and after January 1, 1978? What are the justifications for maintaining this system?

- **Practice Question:** Mark wrote two songs. One he wrote in 1977 and the other he wrote in 1978. He has never made any filings for copyright protection. What are Mark's protective rights in these two songs?
- **Resource Video:** <http://thebusinessprofessor.com/time-period-for-copyright-protection/>

### 30. What is the process for registering a copyright?

Copyright registration is done through the US Copyright Office (USCO). It can be completed either electronically or through the mail. The process requires the completion of the specific forms applicable to the type or category of copyrightable work. These forms lay out the required material for each type of copyright. Once all required material is delivered, the USCO will review it and, if acceptable, issue a certificate of copyright.

- **Note:** The holder of a copyright can also file the copyright registration with the US Customs Service in an effort to prevent the importation of infringing work.
- **Discussion:** Can you think of any benefits associated with filing a copyright? (Hint: Think about the benefits of registering other types of intellectual property.)
- **Resource Video:** <http://thebusinessprofessor.com/process-for-registering-a-copyright/>

### 31. Who can claim copyright protection?

Only the creator of the work (or individual contracting for the creation of the work) may secure copyright protection. The copyright may later be licensed or assigned, but the original creator must originally secure those rights. Companies can be authors under copyright law. The following rules apply to creation of the work:

- **Co-Creators of a Work** - When more than one creator takes part in the creation of the work, there is a presumption that each party owns the work (and attached copyright) equally. Of course, the parties can enter into a contract establishing ownership rights in the creation.
- **Jointly Owned Copyrights** - Co-creation or co-ownership of a copyright entitles each owner to full use and enjoyment of the copyrighted work. Absent a contract stating otherwise, however, any income derived from the copyright is split equally among copyright owners.
- **Employees and Work for Hire** - An individual or firm may own a copyright created by a third party if the third party is an employee or independent contractor hired for the purpose of creating such a work. Work made for an employer by an employee generally belongs to the employer if it was created within the scope of employment. Likewise, works created by an independent contractor generally belong to the contracting party if the work is in the scope of the contracted work.
- **Work Agreements and Default Rules** - The employment agreement or work-for-hire agreement (independent contractor agreement) will generally specifically address the issue of intellectual property created by the worker.

Absent an agreement, default rules regarding the status of an individual as employee or independent contractor may vest ownership of any creation in the employer or contracting party. The work created must be within the scope of the copyrighted material. Examples of creation within the scope of a contracted relationship include:

- a new creation that is the subject of the work relationship;
  - any addition to or modification of an existing work product (except for entries to magazines, blogs, encyclopedias, or other collaborative works with open entry);
  - any material constituting a part of a larger contracted work;
  - translations of an existing work;
  - compilations of multiple parts of a work product; and
  - designs or planning material giving rise to the work product.
- *Transfer and Licensing* - The owner of a copyright may transfer the copyright or license its use to any third-party individual or firm. These are common methods of monetizing copyrights beyond personal production and distribution of the copyrighted work. Copyrights exist independently of the original work itself in tangible form. Owning an original of the copyrighted work does not equate to ownership of the copyright.

- **Discussion:** How do you feel about who is considered to be the owner of a copyright? Can you think of any situations where the above-listed rules could result in unfair outcomes?
- **Practice Question:** Harriet is an employee of ABC Corp. She primarily works on the graphic design team where she creates logos and other creative pieces for the company. During her lunch breaks she has been working on a new design concept for a cartoon corporate mascot. She is thinking of attempting to sell or license this creation to some corporations. Does Harriet own her creative work? What other information do you need to make this determination?
- **Resource Video:** <http://thebusinessprofessor.com/who-may-secure-copyright-protection/>

### 32. What is infringement and how does one enforce a copyright against infringement?

Copyright infringement occurs when a copyrighted work or some portion of the work is reproduced, distributed, performed, or displayed without authority. Authority must be obtained from the copyright holder. A copyright is enforceable through a federal court action. That is, the copyright holder can bring a federal lawsuit against someone infringing upon the copyright. While copyrights attach without registration, the copyright holder must register her copyright prior to bringing a federal court action. Aside from allowing for litigation, a registered copyright provides a public record for the copyrighted work at the time of filing. Once in court, the copyright holder will seek an injunction from further infringement and any monetary damages suffered as a result of the infringement. The registered copyright is presumed valid if the registration occurs within 5 years of creation. This means that any infringing party has to overcome this presumption in court. The federal statute providing for copyrights allows for statutory damages (up to \$150,000) and attorney's fees (if the registration took place within 3 months of publication of the work).

- *Note:* Copyright infringements are routinely resolved through negotiation of the parties.

- **Discussion:** Why do you think the copyright enforcement process requires registration? Are you convinced by the benefits of copyright registration? Can you think of any disadvantages?
- **Practice Question:** Mary wrote a funny poem with great lyrics. One day, when listening to the radio, she hears a couple of lines from her poem in a popular song. If Mary decides to bring a legal action against the performer, what process will she have to follow?
- **Resource Video:** <http://thebusinessprofessor.com/what-is-the-process-for-enforcing-a-copyright/>

### 33. What defenses are available to a copyright infringement action?

The following doctrines or laws provide a defense for an alleged copyright infringer:

- *Invalidity* - The defendant may show that the owner's copyright is invalid.
  - *Note:* This generally arises in the context of the validity or scope of copyright licenses.
- *License* - The defendant may demonstrate that she has a valid license.
  - *Note:* This generally arises in the context of the validity or scope of copyright licenses.
- *Public Domain* - The defendant may successfully argue that the work is in the public domain.
  - *Note:* This includes works that are not subject to copyright and can longer be made subject to copyright. Since copyrights attach naturally, it generally means that the duration of the copyright has lapsed. A creator may also undertake steps to affirmatively place the copyright in the public domain.
- *Statute of Limitations* - The defendant may argue that the statute of limitations for enforcement of an infringement action has run.
  - *Note:* This includes situations where a party learns of an infringing use and does nothing to enforce the copyright against infringement within the statute of limitations. It would generally not apply to on-going infringement.
- *Accident* - The defendant may claim unknowing or innocent infringement. This is not generally an available defense for commercial use of a copyrighted work.
  - *Note:* This generally includes any incidental use for a non-commercial purpose.
- *Fair Use Doctrine* - The fair use doctrine claims that there is a valid an legal use of the copyrighted work that does not infringe upon the holder's rights. Examples of fair use may include the following uses:
  - review of the material (such as critique or criticism);
  - academic use (such as teaching the material or research);
  - satire or other parody of the work; and

- news or public commentary.

- **Discussion:** Do you agree that the above-listed scenarios should constitute a defense to a copyright infringement action? Why or why not? Can you think of any other situations that should be a defense or constitute fair use?
- **Practice Question:** SuperBand is being sued by GreatBand for copyright infringement. GreatBand claims that SuperBand used the rhythm and some lyrics from its copyrighted song. What are some of the potential defenses that may be available to SuperBand?
- **Resource Video:** <http://thebusinessprofessor.com/defenses-to-a-claim-of-copyright-infringement/>

### 34. How does a court determine if use of a copyright constitutes “Fair Use”?

The most disputed affirmative defense to copyright infringement is likely the “fair use” of the copyrighted work. To constitute fair use, the use of the work generally must not be extensive and not cause a negative impact on the copyright holder. The doctrine does not protect activity that is used to diminish the value of the copyright to the rightful holder. In determining whether use of a copyright constitutes fair use, a court will employ several factors in examining the nature and extent of the use. These factors include:

- *Purpose of the Use* - If the purpose of the use was for a non-profit purpose, it is more likely to be protected as a fair use than a commercial activity.
- *Nature of the Work* - What type of copyright is claimed. If the work was created for a commercial purpose, it may demand higher protection. Likewise, a work made for entertainment or a fictional work, may afford greater protection than a fact-based work.
- *Extent of the Use* - If the use was incidental or a very small portion of the work was used, it is more likely to be a fair use. Also, if the work was used as collaboration or as part of a larger project, it may be transformative in nature. A work that sufficiently transforms the original work may be fair use.
- *Economic or Market Impact* - If the use of the copyrighted work causes a negative market or economic impact on the use or value of the original work, it is less likely to be fair use.

- **Discussion:** What do you think about the fair use doctrine? Can you think of any other factors that should be considered in determining fair use?
- **Practice Question:** Tracy is a professor at a large state college. In her class of 300 students, she uses excerpts from a popular business book. The author, who is struggling to repay debt from his unsuccessful run for Congress, decides to sue her and the university for copyright infringement. Tracy claims that her use of excerpts from the book is fair use. What factors will the court consider in determining whether the Tracy’s use constitutes fair use of the copyrighted work?
- **Resource Video:** <http://thebusinessprofessor.com/what-is-fair-use-of-a-copyright/>

### 35. What is the “First Sale Doctrine”?

Section 109 of the Copyright Act provides a purchaser of a copyrighted item the ability to sell or otherwise dispose of the item without the permission of the copyright holder. This is known as the “first-sale doctrine”. It stands for the proposition that a copyright holder cannot control a copyrighted item after it has been sold or transferred.

- *Note:* The purchase of copyrighted item only establishes rights in that item. It does not authorize an individual to copy or otherwise reproduce that copyrighted item.
- **Discussion:** Why do you think the law allows initial purchasers of a copyrighted item the ability to sell or transfer that item? Is there an argument for limiting a purchaser’s authority? Is there an argument for allowing a purchaser to copy or reproduce the item?
- **Resource Video:** <http://thebusinessprofessor.com/what-is-the-first-sale-doctrine/>

### 36. What international protections exist for intellectual property rights?

International intellectual property law is the subject of treaties between nations throughout the world. The United States is a signatory to numerous international agreements respecting intellectual property rights. Some of the primary agreements are as follows:

- *Trade-Related Aspects of Intellectual Property Rights (TRIPS)* - TRIPS is the most recognized agreement among nations concerning the recognition and protection of intellectual property rights. TRIPS is a model agreement promulgated and administered with the World Trade Organization (WTO). Most nation members of the WTO are signatories to the agreement. It provides standards for how intellectual property should be regulated within a country. This includes standards for recognition and protection of intellectual property rights. Forms of intellectual property recognized under TRIPS include copyrights, trademarks, trade dress, geographical identification, designs, patents, new plant varieties, and confidential trade information.
  - *Note:* The scope of protections under TRIPS was further defined under the Doha declaration, a WTO statement issued in 2001.
- *World Intellectual Property Organization (WIPO)* - WIPO is an agency of the United Nations charged specifically with promoting economic development through the facilitation of intellectual property recognition and protection among member countries. The WIPO was formed as part of a multilateral treaty between 188 UN members. WIPO is charged with administering numerous intellectual property agreements between member nations.
- *Paris Convention for the Protection of Industrial Property of 1883 (Paris Convention)* - The Paris Convention was one of the first treaties focusing on the recognition and protection of intellectual property rights. It is administered by the WTO.
- *Berne Convention for the Protection of Literary and Artistic Works (Berne Convention)* - The Berne Convention is an intergovernmental treaty administered by WTO that focuses on protecting copyrights among signatory

nations. Notably, this convention introduced the concept of affording copyright protection to works that are not filed with a governmental office.

- *WIPO Copyright Treaty (WCT)* - The WCT is a WIPO administered treaty focusing on copyright protection among signatory nations. Currently, 94 nations are signatories to the agreement. The WCT focuses on the copyright protection of information technology, computer software, and program design. It offers protections in addition to the Berne Convention.
  - *Madrid Protocol* - The Madrid Protocol is an amendment to the Madrid system for International Registration of Marks. WIPO administers the protocol, which provides the primary international rules for the recognition of trademark rights. Notably, it allows for the multi-jurisdictional registration of trademarks throughout signatory countries.
  - *Patent Cooperation Treaty (PCT)* - The PCT is a treaty among WTO countries concerning the recognition and protection of patent rights. It provides a uniform system for filing for patent protections within signatory countries, known as the “international Patent Cooperation Union”. Notably, it allows for a central filing of an “international application” and preliminary investigation of the filing. The results of the application may then be uniformly presented for protection among signatory nations.
  - *The Patent Law Treaty of 2000 (PLT)* - The PLT is a treaty among 59 countries establishing uniform procedures in the patent filing process. It seeks to resolve issues unresolved under the PCT.
  - *Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedure (Budapest Treaty)* - The Budapest Treaty is a WIPO administered international treaty and for states that are a party to the Paris Convention. It provides an international patent procedure for microorganisms. Deposit of microorganisms at a central location allows for the adequate disclosure required under most patent procedures.
  - *Anti-Counterfeiting Trade Agreement (ACTA)* - ACTA is an international treaty focusing on intellectual property protection and enforcement by preventing counterfeit goods and copyright infringement. Approximately 30 countries are signatories to ACTA.
- **Discussion:** Why do you think the law allows initial purchasers of a copyrighted item the ability to sell or transfer that item? Is there an argument for limiting a purchaser’s authority? Is there an argument for allowing a purchaser to copy or reproduce the item?
- **Resource Video:** <http://thebusinessprofessor.com/international-protection-of-intellectual-property/>