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# AN INTELLECTUAL PROPERTY ROADMAP: THE BUSINESS LAWYER'S ROLE IN THE REALM OF INTELLECTUAL PROPERTY

*Gordon U. Sanford, III\**

## I. INTRODUCTION

The business lawyer's traditional duties are valuable, and their importance should not be underestimated. Tasks, including business formation, securities and tax research, and contract review, are often performed for clients. Yet, in this modern era of value-added lawyering, these services seem somewhat fungible. Thus, the business lawyer must search for creative means to justify ever-increasing fees. The development of "front-end" methods to protect the client's valuable intellectual property assets achieves that goal.

The spectrum of duties performed by business lawyers is vast. Because each business lawyer encounters different clients with varying needs, it is difficult to compartmentalize these duties. Business lawyers often facilitate transactions between clients and other entities. Examples of such transactions include mergers, real estate acquisitions, and bond issuances. In the course of such deals, businesses often confront intellectual property issues, particularly in conjunction with the Uniform Commercial Code.

Many business lawyers also serve as the general legal advisor to business clients throughout the life of an entity. While large companies may employ in-house legal staffs, smaller businesses often rely upon private business lawyers to provide valuable advice. The legal advisor performs many functions throughout the life of the business. First, the legal advisor helps provide certainty to his client. Business owners despise the cost and inconvenience of litigation. Therefore, the legal advisor must furnish creative front-end strategies to reduce the prospects of costly litigation. Next, the legal advisor must serve as a bridge between legally untrained clients and the complex legal system. The average client will not completely comprehend convoluted contractual language or complex regulatory schemes. Thus, the legal advisor must filter the information in a way that is accessible to the client.

Nowhere in the law are the functions of certainty and filtration more important than in the realm of intellectual property. This puzzling law, encompassing abstract components, such as trademarks, copyrights, patents, and trade secrets, frequently confuses the client, and sometimes the legal advisor. This confusion may stem from a lack of education or a misconception that such issues arise only in the context of Fortune 500 companies.

As this Article demonstrates, intellectual property issues arise in businesses ranging from sole proprietorships to multi-national conglomerates. Therefore, a business lawyer with even minimal training in the field may offer valuable servi-

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ices to business clients. For example, most business lawyers regularly draft articles of incorporation, contracts, and deeds. Many, however, are not trained to strategically protect the client's intellectual property.

This Article contains two general components. First, it provides brief descriptions of the intellectual property laws, including trademark, copyright, patent, and trade secret. These summaries include legal aspects that are relevant to business attorneys. Litigation aspects of intellectual property, such as infringement, are beyond the scope of this Article. Next, a series of practical applications follows each legal summary. These are concrete examples of intellectual property services that the business lawyer may offer to certain business clients.

Each of the four branches of intellectual property (trademark, copyright, patent, and trade secret) presented in this Article may stand alone. However, one may glean a more complete understanding of intellectual property law by reading the entire Article and noting differences and similarities among the branches.

## II. LAW OF INTELLECTUAL PROPERTY

### A. Trademarks

#### 1. Trademark Law<sup>1</sup>

##### a. What is a Trademark?

The law of trademark has evolved greatly since fifth-century Greek merchants marked handmade pottery. However, the purpose of trademark has remained constant over this great span of years. Trademarks designate the goods, services, or businesses of various entrepreneurs.<sup>2</sup>

Trademark law exists concurrently in the United States between the federal and state governments. At the federal level, the Lanham Act<sup>3</sup> provides a uniform system of trademark protection throughout the nation. This Article focuses solely on federal trademark provisions. Nonetheless, business lawyers should be aware that each state possesses its own trademark laws.

The selection of a trademark is an important step in the creation of a business or product. A trademark may consist of "any word, name, symbol, or device, or any combination thereof."<sup>4</sup> As this definition suggests, the trademark may take many forms. One point is certain, however—a trademark may become one of the most valuable assets of the business.

The trademark may take many different forms as long as it is distinctive and distinguishes the owner's goods, services, or business from those of others. The trademark may be a word, such as Coca-Cola,<sup>5</sup> or a slogan, such as "It's the Real

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1. For an overview of trademark law, see Anne Haring, *Principles of Trademark Law*, 486 PLI/PAT 31 (July 1997); Frank L. Politano, *Overview of the Basic Principles of Trademark Law and Unfair Competition*, 486 PLI/PAT 93 (July 1997).

2. More precisely, "trademarks" identify the source of goods; "service marks" identify the source of services; and "trade names" identify businesses and vocations. For the purposes of this Article, all three are collectively referred to as "trademarks."

3. 15 U.S.C. §§ 1051-1128 (1994).

4. 15 U.S.C. § 1127 (1994); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 9 (1994).

5. *Coca-Cola v. Koke Co. of Am.*, 254 U.S. 143 (1920).

Thing.” The trademark may also consist of unconventional indicia. For example, sound,<sup>6</sup> fragrance,<sup>7</sup> color,<sup>8</sup> packaging,<sup>9</sup> or, in limited circumstances, a person’s surname<sup>10</sup> have been upheld as valid trademarks. Although these trademarks vary in nature, their purpose is identical. A valid and protectable trademark distinguishes the goods, services, or business from those of other owners.

## b. The Strength of Various Trademarks

### i) Classifications

When selecting a trademark, the business owner should recognize that marks enjoy different levels of protection against infringement, based upon distinctiveness. The level of protection increases as the trademark becomes more distinctive. There are five classes of distinctiveness: fanciful, arbitrary, suggestive, descriptive, and generic.<sup>11</sup>

A fanciful trademark is a “made up” word, such as *Exxon*. This type of trademark is the most distinctive, but requires significant advertising to gain consumer awareness. An arbitrary trademark is also highly distinctive. Arbitrary trademarks are real words used in a manner that is totally unrelated to the goods they designate. An example of an arbitrary trademark is *Apple* computer.

As the name implies, suggestive trademarks conjure up characteristics of the product in the minds of consumers. However, the ultimate consumer must expend some imagination to determine the nature of the goods. One benefit of suggestive trademarks is that they receive protection without a large advertising requirement. The consumer acquires a general idea of the product without actually seeing it. An example of a suggestive trademark is *Coppertone* suntan oil.

The descriptive trademark is minimally distinctive and immediately informs the consumer of the product’s characteristics, uses, or ingredients.<sup>12</sup> This class requires little or no imagination by the consumer to determine the nature of the goods. For example, *Pizza Rolls* for pizza-flavored snack rolls is a descriptive trademark. The descriptive trademark receives protection only when accompanied by *secondary meaning*.<sup>13</sup>

One problem in classifying trademarks is differentiating between descriptive and suggestive trademarks. Although courts have expounded tests for making

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6. See *In re General Elec. Broadcasting Co.*, 199 U.S.P.Q. 560 (T.T.A.B. 1978) (holding that a sound is capable of trademark protection, although, in the instant case, the ship’s bell clock was incapable of serving as trademark for radio broadcasting services).

7. *In re Clarke*, 17 U.S.P.Q.2d 1238 (T.T.A.B. 1990) (holding that a fresh floral fragrance was a trademark for yarn).

8. *In re Owens-Corning Fiberglas Corp.*, 774 F.2d 1116 (Fed. Cir. 1985) (allowing registration of color pink for fiberglass insulation); *Qualitex Co. v. Jacobson Prods. Co.*, 115 S. Ct. 1300 (1995) (holding that a color may sometimes serve as a trademark).

9. *Aromatique, Inc. v. Gold Seal, Inc.*, 28 F.3d 863 (8th Cir. 1994).

10. See *L.E. Waterman Co. v. Modern Pen Co.*, 235 U.S. 88 (1914); see also *David B. Findlay, Inc. v. Findlay*, 218 N.E.2d 531 (N.Y. 1966) (limiting the use of surnames as trademarks).

11. *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976).

12. *International Kennel Club of Chicago, Inc. v. Mighty Star, Inc.*, 846 F.2d 1079, 1085 (7th Cir. 1988); *RWT Corp. v. Wonderware Corp.*, 931 F. Supp. 583 (N.D. Ill. 1996).

13. See *infra* note 17 and accompanying text.

this classification, there is a very fine line between the two classes.<sup>14</sup> This distinction is very important to a trademark owner because secondary meaning may be a costly requirement.

Generic trademarks simply refer to the product and enjoy no protection. Distinctive trademarks fall into the generic class if the public's common name for the product becomes interchangeable with the product's trademark. For example, *Aspirin*<sup>15</sup> and *Cellophane*<sup>16</sup> began as trademarks and, through overuse of the term by the public, became generic. Consequently, companies, such as *Xerox*, have exerted energy and resources through marketing campaigns to prevent the public from converting a valuable trademark into a common product name.

## ii) Secondary Meaning

A descriptive term must acquire secondary meaning to reach the level of distinctiveness required for trademark protection. Secondary meaning occurs when the public mentally connects the trademark with the origin of the goods, rather than with the goods themselves.<sup>17</sup> Several factors determine whether secondary meaning is present, including "the amount and manner of advertising, volume of sales, the length and manner of use, direct consumer testimony, and consumer surveys."<sup>18</sup> These factors demonstrate the necessity of advertising resources to expand public awareness.

## c. Acquiring the Trademark

Although trademark registration provides many benefits,<sup>19</sup> it is not a requirement of trademark acquisition. Trademark acquisition occurs in two ways. The trademark may be "adopted and used" in interstate commerce. Alternatively, the user may preserve a trademark with a "bona fide intent to use" the mark in interstate commerce.

## i) Adoption and Use

Trademark rights arise through adoption and use of a distinctive mark in interstate commerce.<sup>20</sup> According to the Lanham Act, there must be a "bona fide use of such mark in the ordinary course of trade, and not made merely to reserve a

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14. *Stix Prods., Inc. v. United Merchants & Mfgs., Inc.*, 295 F. Supp. 479, 488 (S.D.N.Y. 1968) (stating, "A term is suggestive if it requires imagination, thought and perception to reach a conclusion as to the nature of the goods. A term is descriptive if it forthwith conveys an immediate idea of the ingredients, qualities or characteristics of the goods.").

15. *Bayer Co. v. United Drug Co.*, 272 F. 505 (S.D.N.Y. 1921).

16. *DuPont Cellophane Co. v. Waxed Prods. Co.*, 85 F.2d 75, 80 (2d Cir. 1936).

17. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 13 (1994).

18. *International Kennel Club of Chicago, Inc. v. Mighty Star, Inc.*, 846 F.2d 1079 (7th Cir. 1988) (holding that, although the name "International Kennel Club" was a descriptive trademark for dog related products, the trademark was nevertheless protectible because it had acquired secondary meaning. The court considered "the club's half-century use of the name, combined with their advertising, substantial free publicity, and wide-ranging activities in support of dog groups."); *Gimix, Inc. v. J S & A Group, Inc.*, 699 F.2d 901, 907 (7th Cir. 1983).

19. See *infra* notes 30-35 and accompanying text.

20. See *Larry Harmon Pictures Corp. v. Williams Restaurant Corp.*, 929 F.2d 662 (Fed. Cir. 1991) (demonstrating the low threshold for meeting the "interstate commerce" requirement. A restaurant operated in one state, but serviced some customers traveling across state boundaries. The court held that Congress may regulate "intrastate transactions that affect interstate or foreign commerce.") (citing *In re Gastown, Inc.*, 326 F.2d 780 (C.C.P.A. 1964)).

right in a mark.”<sup>21</sup> Use consists of an attachment of the trademark on the goods, containers, displays, tags, or labels.

The Lanham Act requires actual use of the trademark. The business owner may not register the mark and then sporadically use it, merely to reserve the mark.<sup>22</sup> A registered, but unused, mark loses any form of protection. An unregistered, but used, trademark enjoys protection.<sup>23</sup>

The business owner faces an inherent problem in determining a sufficient level of use in commerce. On one hand, it is expensive to advertise and market a trademark. On the other hand, lack of use can result in loss of trademark protection. The test for the necessary level of use is use “‘in a way sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark . . . .’”<sup>24</sup> The owner must determine the level of marketing necessary to meet this standard.

In certain circumstances, a trademark owner may establish use in commerce before the good or service is available to the public. This “analogous use doctrine” requires sufficient advertisement to create public awareness, and the goods or services must be available soon after the advertising campaign.<sup>25</sup>

Actual use of a trademark is important because it establishes priority. Generally, the use of a mark in a market precludes others in that market from subsequently using the mark on the same class of goods. However, identical marks may coexist, if used in different regions.<sup>26</sup> Thus, it is vital to define the product market in question. This “concurrent use” doctrine is limited where one of the users has registered the mark. An unregistered trademark may coexist with a registered trademark as long as they are in distinct regions and there is no likelihood of expansion by the registered user that would cause public confusion.<sup>27</sup>

## ii) Intent to Use

A 1989 amendment to the Lanham Act presented the average business with a much more affordable avenue to establish trademark protection than the adoption and use route. The business may acquire trademark rights upon completion of an intent to use application, coupled with a “bona fide intention to use the mark in commerce . . . .”<sup>28</sup> This process allows an applicant to reserve trademarks up to three years prior to the product’s entry into the market.<sup>29</sup>

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21. 15 U.S.C. § 1127 (1994).

22. See *Procter & Gamble Co. v. Johnson & Johnson, Inc.*, 485 F. Supp. 1185 (S.D.N.Y. 1979), *aff’d.*, 636 F.2d 1203 (2d Cir. 1980) (holding that a company may not stockpile trademarks through a de minimis use program). This problem has been greatly mitigated by the intent to use provision of the Lanham Act. See *infra* note 27 and accompanying text.

23. 15 U.S.C. § 1525 (1994).

24. *Blue Bell, Inc. v. Farah Mfg. Co.*, 508 F.2d 1260, 1266 (5th Cir. 1975) (quoting *New England Duplicating Co. v. Mendes*, 190 F.2d 415, 418 (1st Cir. 1951)).

25. *Pactel Teletrac v. T.A.B. Sys.*, 32 U.S.P.Q.2d 1668 (T.T.A.B. 1994).

26. *Hanover Miling Co. v. Metcalf*, 240 U.S. 403, 415 (1916); *Coach House Restaurant, Inc. v. Coach and Six Restaurants*, 934 F.2d 1551, 1565 (11th Cir. 1991).

27. *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358, 364 (2d Cir. 1959).

28. 15 U.S.C. § 1051(b)(1)(A) (1994).

29. 15 U.S.C. § 1051(d)(2) (1994). The statute grants an automatic protection period of six months. Automatic extensions of six months are automatically approved. The Commissioner of Trademarks may grant extensions of up to 24 months for filing a use statement. *Id.*

A valid intent to use election places potential infringers on constructive notice. This priority is important because it allows a limited degree of trademark stock piling without having to make token use of the trademark. The intent to use method is also less expensive and more certain than the analogous use doctrine. Recall that the analogous use doctrine allows trademark protection before the product's market entry, but only after major advertising resources are expended. An intent to use applicant must merely possess a bona fide intention to use the mark. Without this intention, however, an infringer may seek rescission of the application.<sup>30</sup>

#### d. Trademark Registration and Notice

##### i) The Benefits of Registration

Registration of a trademark does not create trademark ownership. Trademark ownership arises from "adoption and use" or a "bona fide intent to use." With that said, every trademark owner should register the trademark. Favorable benefits flow upon registration.

Registration provides nationwide constructive notice to potential users of the same mark. A subsequent adopter of the mark may not assert that he was unaware of a registered mark and thus, a good faith user. If the mark remains unregistered, the owner's protection encompasses only the area in which the trademark was used prior to the subsequent user's adoption of the mark.<sup>31</sup> If the second user registers the mark, the first user may not expand outside of the original area.

Another benefit that registration bestows upon the owner is an "incontestable" status. If the registered mark is used continuously for five years following registration, it qualifies as an incontestable trademark.<sup>32</sup> This severely limits the challenges that later users or infringers may assert.

Registration of a mark creates prima facie evidence that the mark is valid, that the registrant owns the mark, and that the registrant possesses the exclusive right to use the mark.<sup>33</sup> Every business should attain these important benefits. An attorney performing a trademark search will easily locate a registered mark. Thus, registration may save many litigation dollars necessary to pursue an infringement action against a subsequent user. Registration provides other advantages as well, such as a federal forum for controversy,<sup>34</sup> use of the famous ® symbol,<sup>35</sup> and the ability to receive treble damages from infringers.<sup>36</sup>

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30. See *Commodore Elecs. Ltd. v. CBM Kabushiki Kaisha*, 26 U.S.P.Q.2d 1503 (T.T.A.B. 1993) (stating that an objective good-faith test establishes whether an intent to use is genuine. Objective factors, such as documentation, internal memos, or formal plans, may demonstrate a bona fide intent to use.).

31. *Dawn Donut*, 267 F.2d at 360.

32. 15 U.S.C. § 1065 (1994).

33. 15 U.S.C. § 1057(b) (1994).

34. 15 U.S.C. § 1121 (1994). Infringement of certain unregistered trademarks may be consummated in federal court under § 43(a) of the Lanham Act. Section 43(a) creates a federal law regulating the traditional state doctrine of unfair competition. For a comprehensive discussion of § 43(a), see *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992).

35. 15 U.S.C. § 1111 (1994).

36. *Id.* § 1117.

## ii) The Registration Process

Trademark ownership is a prerequisite to registration. Again, this requires “adoption and use in commerce” or a “bona fide intention to use the mark in commerce.” In order to avoid rejection of a registration application or an infringement suit, the potential user of a contemplated trademark should perform a nationwide search of existing trademarks. As one commentator stated, “proceeding in a new venture without [a search] is akin to erecting a building or signing a long-term lease without checking real estate title.”<sup>37</sup> Professional search companies provide thorough searches for national and state trademarks. These companies search not only Patent and Trademark Office (hereinafter “PTO”) records, but also telephone books, trade directories, and other literature. A professional search is desirable, but costly. A less costly method of performing the search is through the Internet.

Once the search is completed and ownership is established, the trademark should be registered with the PTO and the respective state agency. The trademark owner should note that several bars to registration exist.<sup>38</sup> If the trademark does not fall within one of the classes barred from registration, an application should be filed. The registration application requests various information concerning the mark and a check for \$245 per class.<sup>39</sup> The PTO searches existing registrations and examines the application for grounds to refuse registration. Many statutory grounds for refusal exist, and the PTO commonly rejects the application.

If the trademark survives the PTO’s examination, it is published in the *Official Gazette of the U.S. Patent and Trademark Office*. This allows any person to oppose the registration if likelihood of confusion with another trademark exists. If no objection is filed within thirty days of publication, the applicant receives a certificate of registration that lasts for ten years. Between the fifth and sixth year of registration, the owner must file an affidavit of continued use. The ten-year registration may be renewed in ten-year increments indefinitely.

## iii) Trademark Notice

The affixation of notice of registration is not mandatory. However, notice is an inexpensive method of preserving several rights in the trademark. Owners seek-

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37. Thomas G. Field, Jr., *Avoiding Patent, Copyright & Trademark Problems*, Franklin Pierce Law Center On-line (visited March 2, 1998) <<http://www.flpc.edu/avoid.htm>>.

38. 15 U.S.C. § 1052 (1994). A few grounds for refusal include the following: merely descriptive marks; deceptive marks (see *In re Budge Mfg. Co.*, 857 F.2d 773 (Fed. Cir. 1988)); immoral marks (see *Greyhound Corp. v. Both Worlds, Inc.*, 6 U.S.P.Q.2d 1635 (T.T.A.B. 1988)); geographically descriptive marks (see *In re London & Edinburgh Ins. Group Ltd.*, 36 U.S.P.Q.2d 1367 (T.T.A.B. 1995)); marks likely to cause confusion (see *Nutrasweet Co. v. K & S Foods, Inc.*, 4 U.S.P.Q.2d 1964 (T.T.A.B. 1987)); and marks which are primarily surnames (see *In re Cazes*, 21 U.S.P.Q.2d 1796 (T.T.A.B. 1991)). The registrant should check the statute for other bars.

39. 15 U.S.C. § 1051 (1994). There are 34 classes for trademarks and 8 classes for service marks. A trademark may fall into more than one class. A trade name is unregistrable.

ing these benefits should affix to the goods the words "Registered in the Patent and Trademark Office," the words "Reg. U.S. Pat. & Tm. Off.," or the ® symbol.<sup>40</sup> The display of notice empowers the owner to seek damages and profits against infringers.<sup>41</sup> Notice also serves as a proactive method to discourage others from using the trademark.<sup>42</sup>

#### e. Loss of Trademark Rights

An effective business lawyer should emphasize the importance of an ongoing trademark maintenance program. If the client is not careful, loss of trademark rights may occur. Generally, a trademark is surrendered when the mark (1) becomes generic *or* (2) the trademark's use has been "discontinued with an intent not to resume such use . . . ."<sup>43</sup>

##### i) Genericism

Genericide occurs when "the principal significance of the word [ ] indicat[es] the nature or class of an article, rather than . . . its origin."<sup>44</sup> A trademark owner must strike an important balance in marketing. The owner must market enough to signify "use in commerce," but must not over-market, causing the target market to equate the trademark with the actual product.<sup>45</sup>

##### ii) Abandonment

Abandonment occurs when use has been discontinued with intent not to resume the use.<sup>46</sup> Thus, the owner must continuously make bona fide use of the trademark in interstate commerce to maintain trademark rights. Even if use ceases, but there is an intent to resume use of the mark in the "foreseeable future," the mark is not abandoned.<sup>47</sup>

The intent not to resume inquiry raises problems because of its subjective nature. The Lanham Act alleviates this problem by stating that "[n]onuse for two consecutive years shall be prima facie evidence of abandonment."<sup>48</sup> The trademark owner may rebut the presumption of abandonment with evidence that he has tried to sell the mark along with the product to which it is applied.<sup>49</sup> Under

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40. 15 U.S.C. § 1111 (1994).

41. *Id.*

42. Unregistered marks may display notice of use with the TM symbol. Although this does not denote registration, it does denote use in commerce. This also deters others from using the mark.

43. 15 U.S.C. § 1127 (1994).

44. *King-Seeley Thermos Co. v. Aladdin Indus.*, 321 F.2d 577, 580 (2d Cir. 1963).

45. *See supra* notes 15 & 16 and accompanying text. Many former trademarks have suffered from genericide, including Yo-Yo, Nylon, Shredded Wheat, Kerosene, Dry Ice, Escalator, Trampoline, Mimeograph, and many others.

46. 15 U.S.C. § 1125 (1994).

47. *Silverman v. CBS, Inc.*, 870 F.2d 40 (2d Cir. 1989), *cert. denied*, 492 U.S. 907 (1989) (holding that CBS abandoned its Amos 'n' Andy characters due to 20 years of non-use and no plans to resume use in the foreseeable future).

48. 15 U.S.C. § 1125.

49. *Defiance Button Mach. Co. v. C & C Metal Prods. Corp.*, 759 F.2d 1053 (2d Cir. 1985), *cert. denied*, 474 U.S. 844 (1994); *Saratoga Vichy Spring Co. v. Lechman*, 625 F.2d 1037, 1044 (2d Cir. 1980); *Century 21 Real Estate Corp. v. Mohs*, 390 N.W.2d 114 (Ct. App. Wis. 1986).

this approach, the owner may not make only de minimis use of the trademark in an effort to stockpile trademarks.

## 2. Practical Considerations

### a. Select an Appropriate Name

The selection of an appropriate name is critical in starting a business or designing a product. Nowhere is this importance more magnified than in the trademark area. The business lawyer should encourage the business to select an unusual name that subtly hints at the nature of the product or business. Applying the information summarized in the *Strength of Various Trademarks* section above, the name should fall as close as possible to a descriptive mark without leaving the suggestive classification.

This ultra-suggestive mark minimizes the costs necessary to acquire protection. It casually suggests the nature of the product or business to the public. This eliminates the problem facing arbitrary and fanciful marks—the need to expend major marketing resources simply to familiarize the target consumer with the new product or business. Furthermore, by avoiding the descriptive label, the expensive secondary meaning requirement is eliminated. With an ultra-suggestive mark, the target consumer should be able to determine the underlying product or business without actually seeing it.

There is inherent risk in selecting an ultra-suggestive trademark. If it becomes overly suggestive, it may receive a descriptive label. The descriptive term receives no trademark protection unless secondary meaning is acquired. Thus, the company would have to spend advertising dollars to persuade consumers that the descriptive term was a symbol of the company, rather than the good itself.

### b. Perform a Trademark Search

A trademark search reduces the potential for future litigation. Thus, before the mark is officially attached to a product or business, the owner should perform a search. Thorough searches provided by professional search firms are somewhat expensive, but the search teams examine federal and state trademark registrations, telephone books, and trade directories for similar marks.

Determining whether the mark is registered *or* is simply in use is very important. Federal registration imputes constructive notice to all subsequent users. Therefore, a federal registrant may sue a subsequent user for trademark infringement. If a registered mark is not discovered and the client uses the mark, the client could lose the mark to the registered user.<sup>50</sup>

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50. Maria Crimi Speth, *It's All in the Name: Intellectual Property Issues to Consider in a Business Start-Up*, *Arizona Attorney*, 24-25 (Oct. 1996) (illustrating how a business may lose goodwill and name recognition when it fails to perform a search and a registered user later enters the business's market).

Not all businesses can afford a professional search. In that case, the business lawyer should consider a more limited search. The search could encompass Internet databases, local telephone books, and trade directories. Although the chance of overlooking a registered mark is greater with this method, it will locate many potential conflicts.

c. Register the Trademark and Affix Notice

The business lawyer should encourage the client to register the trademark at the state and federal levels. As discussed above, registration does not denote ownership. However, federal registration does provide many benefits. If the company has any aspirations of expansion, registration with the PTO is essential. Registration signifies priority. Thus, the registrant may exclude users in all markets who adopted the trademark subsequent to the registration. It effectively freezes all non-registered trademark users to the areas in which they sold products prior to the client's registration. Federal registration also signifies incontestability, validity, and exclusivity. Furthermore, the client will be able to use the ® symbol. State registration is inexpensive, but only provides limited protection.

Notice should accompany the trademark whenever possible. The use of ® following the mark preserves damages claims against infringers and serves as an offensive mechanism to deter potential users.

d. File an Intent to Use Application and Create a Paper Trail

Recall that trademark ownership may arise from a bona fide intent to use the mark in interstate commerce. If the product is not completely ready for the market, the intent to use allows trademark acquisition without the expense of adopting and using the mark in interstate commerce.

The intent to use the mark must be bona fide. A trademark infringer may eliminate the applicant's rights in the mark by successfully arguing that the applicant did not have a bona fide intent to use the mark at the time of application. Courts utilize an objective good faith test to establish whether the applicant's intent was genuine.<sup>51</sup> Applicants generally satisfy the objective test where company documents illustrate a formalized plan to use the trademark. The business lawyer should encourage the client from the outset to have meetings, generate memos, and develop written policies regarding the expected use of particular trademarks. A paper trail signifies a bona fide intent to use the trademark, and thus, trademark rights are more secure.

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51. *Commodore Elecs. Ltd. v. CBM Kabushiki Kaisha*, 26 U.S.P.Q.2d 1503, 1506 (T.T.A.B. 1993).

### e. Explore Tax Considerations

The field of intellectual property presents many tax considerations to the business. Taxation of intellectual property is complex and somewhat inconsistent.<sup>52</sup> Taxation issues in intellectual property frequently arise in two situations—acquisition and disposition. Internal Revenue Code § 197 governs the taxability of trademarks acquired by a business after August 19, 1993.<sup>53</sup> All costs to develop and acquire the trademark must be capitalized and then amortized over fifteen years.<sup>54</sup> Thus, the purchase price, registration expenses, and trademark legal fees are probably amortizable, rather than currently deductible. The disposition of a trademark triggers tax to the transferor. Generally, if the transferor relinquishes its control over the trademark, it will receive capital gain treatment on the sale of the trademark.<sup>55</sup>

#### A. Copyrights

##### 1. Copyright Law<sup>56</sup>

###### a. What is a Copyright?

The law of copyright has greatly expanded since the first federal copyright law—the Act of May 31, 1790. The United States Constitution vests copyright protection in the federal government.<sup>57</sup> Based on this grant of power, Congress has enacted several Copyright Acts through the years. The current law is embodied in the Copyright Act of 1976, although copyrights acquired before January 1, 1978 are subject to the Copyright Act of 1909.<sup>58</sup> Similar to trademarks, registration is not necessary to acquire a copyright. Instead, one acquires exclusive rights in a copyright for the life of the author plus fifty years,<sup>59</sup> upon the satisfaction of three elements. The copyright comes into existence where there is an “[1] original [2] work[ ] of authorship [3] fixed in any tangible medium of expression . . . from which [it] can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”<sup>60</sup>

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52. This Article addresses only a scintilla of tax law. For a comprehensive discussion of the taxation of intellectual property, see Charles Edward Falk, *Tax Planning for the Development and Licensing of Patents and Know-How*, TAX MGMT. PORTFOLIO (BNA) 557 (1998); Reuven S. Avi-Yonah, *Amortization of Intangibles*, TAX MGMT. PORTFOLIO (BNA) 533 (1997); Charles Edward Falk, *Planning for the Development and Licensing of Copyrights, Computer Software, Trademarks and Franchises*, TAX MGMT. PORTFOLIO (BNA) 558 (1997).

53. Effective date of the Omnibus Budget Reconciliation Act of 1993, Pub. L. No. 103-66 § 13,261 (codified at 26 U.S.C. § 197 (1994)).

54. I.R.C. §§ 197(a), 197(d)(1)(F) (1994).

55. I.R.C. § 1253(a) (1994).

56. For an overview of the copyright law, see William M. Hart, *An Overview of the Copyright Law*, 559 PLI/LIT 7 (March 1997); Carla J. Shapreau, *The Basic Principles of Copyright Law*, 450 PLI/PAT 49 (July 1996).

57. U.S. CONST. art. I, § 8, cl. 8 (stating that “The Congress shall have Power To . . . promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”).

58. Significant differences between the 1909 Act and the 1976 Act exist. Therefore, it is critical to ascertain the date of copyright acquisition. This Article does not attempt to distinguish the Acts.

59. 17 U.S.C. § 302(a) (1994).

60. *Id.* § 102(a).

## b. Copyright Elements

### i) Originality<sup>61</sup>

Originality includes two components. Originality requires that a work (1) was independently created by the author, and (2) possesses some minimal degree of creativity.<sup>62</sup> As the Supreme Court stated, “the requisite level of creativity is extremely low; even a slight amount will suffice.”<sup>63</sup> Thus, a Monet or Rembrandt quality work is not required for copyright. Furthermore, a work that is identical to an existing work may nonetheless meet the originality standard if the second work was made up by the second author, and he did not copy it from the first author.<sup>64</sup> Even if the second author was aware of the first author’s work, the second work may still pass the originality test if it is “a distinguishable variation of [the] prior work.”<sup>65</sup> The originality standard is not synonymous with the more demanding novelty requirement of patents.<sup>66</sup>

### ii) Work of Authorship

The 1976 Act recites many classifications of protectible original works of authorship. The general categories include the following: literary works; musical works; dramatic works; pantomimes and choreographic works; pictorial, graphic and sculptural works; motion pictures and other audio-visual works; sound recordings; architectural works; and compilations, collective works, and derivative works. As this non-exhaustive list demonstrates, the range of copyrightable material is expansive.

Many original works fall within the literary works category. The statutory definition states that literary works are expressed in “words, numbers, or other verbal or numerical symbols or indicia” and may be recorded in “books, periodicals, manuscripts, phonorecords, film, tapes, disks, or cards . . . .”<sup>67</sup> Examples of literary works are short stories, computer software, written speeches, newspapers, and many others.<sup>68</sup> Although the other categories are not discussed here, they do encompass many copyrightable works.

### iii) Fixed in a Tangible Medium of Expression

This element requires the author’s work to be presented in a tangible format which can be “perceived, reproduced or otherwise communicated.”<sup>69</sup> The tangi-

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61. For a comprehensive discussion of originality, see *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991).

62. *Feist*, 499 U.S. at 345. See also *Burrow Giles Lithographic Co. v. Sarony*, 111 U.S. 53 (1879); *The Trade-Mark Cases*, 100 U.S. 82 (1879).

63. *Feist*, 499 U.S. at 345.

64. This independent coincidental authorship feature is unique to copyright law. Patent protection is never granted for two identical inventions, even if the second inventor was completely unaware of the first invention.

65. DAVID A. WEINSTEIN, *HOW TO PROTECT YOUR CREATIVE WORK* 17 (2d ed. 1996).

66. See *infra* notes 138-45 and accompanying text.

67. 17 U.S.C. § 101 (1994).

68. See *Bernstein v. U.S. Dept. of State*, 922 F. Supp. 1426 (N.D. Cal. 1996).

69. 17 U.S.C. § 102(a) (1994).

ble medium must be sufficiently permanent to receive protection. For example, a movie becomes fixed when it is captured on film. A live performance becomes fixed when it is recorded. A story becomes fixed when it is written on paper. A computer program becomes fixed when it is stored on floppy disks or memory chips.<sup>70</sup> This requirement demonstrates the importance of rapidly recording the work into a permanent form.

Any work that does not satisfy all three elements (original, work of authorship, fixed in a tangible medium of expression) will not receive copyright protection. Instead, it falls into the public domain and becomes available to everyone. The 1976 Copyright Act states that protection is not extended to “any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described . . . .”<sup>71</sup> Thus, copyrights apply to the expression of an author’s work, rather than to the author’s underlying idea.<sup>72</sup> Furthermore, mere historical facts never receive copyright protection.<sup>73</sup> The author should strive to convert the original idea into some type of copyrightable expression.

### c. Copyright Ownership

#### i) Benefits of Ownership

Before one may appreciate copyright ownership, it is essential to know the rights that accompany this status. This Article does not elaborate on each of these rights; instead, they are simply listed. The 1976 Act enumerates six specific rights that are commonly referred to as the copyright “bundle of rights.” These statutory rights embody the essence of copyright law. Rights comprising the bundle are as follows: (1) to copy or reproduce the copyrighted work; (2) to prepare derivative works based on the copyrighted work; (3) to distribute copies of the copyrighted work; (4) to perform the copyrighted work publicly; (5) to display the work publicly; and (6) to perform a sound recording by means of digital audio transmission.<sup>74</sup> An author of a visual art possesses not only these rights, but also the right to claim or disclaim authorship of the work and prevent intentional distortion or destruction of the copyrighted work.<sup>75</sup> These exclusive rights are not absolute. The 1976 Act contains several limitations to the bundle of rights.<sup>76</sup>

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70. See *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240 (3d Cir. 1983).

71. 17 U.S.C. § 102(b) (1994).

72. See *Baker v. Selden*, 101 U.S. 99 (1879) (holding that accounting methods which were advocated in a book were not protected under the book’s copyright. The Court stated, “where the art it [the book] teaches cannot be used without employing the methods and diagrams used to illustrate the book . . . such methods and diagrams are to be considered necessary incidents to the art, and given therewith to the public.”). *Id.* at 104.

73. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 563 (1985) (holding that President Gerald Ford could not prevent others from copying facts from his autobiography, but his “subjective descriptions and portraits of public figures” were protectible).

74. 17 U.S.C. § 106 (1994).

75. *Id.* § 106A(a).

76. See *Id.* §§ 107-120.

## ii) Initial Ownership

One of the most simple, yet fundamental, premises of copyright law is that the copyright attaches when an original work of authorship is fixed in a tangible medium of expression. No other requirements, such as registration, are necessary. Once these three basic elements are established, the original author becomes the initial owner of the copyright.<sup>77</sup> The ownership discussion would cease here if original works were always attributable to one creator. However, original works are often the product of joint creation or employer/employee creation. Thus, provisions for joint ownership and employment related ownership are relevant.

## iii) Joint Ownership

Authors commonly create works independently; subsequently, however, the works may be combined with the works of others to form a comprehensive product. For example, many separate copyrightable works compose a musical. Works, such as music, lyrics, choreography, story, characters, and many others, comprise the musical. Although copyright protection may flow to the authors for their individual works, such authors may or may not be “joint owners” of the musical. The joint work label is important because all authors hold the copyright to the comprehensive product as tenants in common. Therefore, each author may use or grant others permission to use the work without the consent of the remaining authors.

The 1976 Act defines a joint work as “a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.”<sup>78</sup> Thus, the touchstone of a joint work is the “intention” of the authors at the time of creation.<sup>79</sup> If each of the authors collectively decided that all of the products would form one comprehensive musical, then a joint work probably exists. If, however, each author independently created his product and later, the products were randomly organized into a musical, the intent to merge at creation requirement would fail.

As the joint work definition states, “authorship” is required for each contributor. A person may claim that he is the author of a joint work when he actually contributed very little to the project. The courts have employed two “author tests” in the context of joint works. The “copyrightable subject matter test” is used by a majority of courts.<sup>80</sup> This approach bestows authorship only when the individual’s contribution could independently receive copyright protection with-

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77. *Id.* § 201(a).

78. *Id.* § 101.

79. See H.R. Rep. No. 1476, 94th Cong., 2d Sess. 120 (1976), *reprinted in* 1976 U.S.C.A.N. 5659, 5736; see also *Erickson v. Trinity Theatre, Inc.*, 13 F.3d 1061 (1994) (stating that, from the outset, each author must clearly intend for his works to be merged with others to form a “joint work”); *Childress v. Taylor*, 945 F.2d 500 (2d Cir. 1991).

80. *Erickson*, 13 F.3d at 1070.

out reference to the joint work.<sup>81</sup> The second test requires a contribution slightly greater than “de minimis” to establish joint ownership.<sup>82</sup> Courts have not embraced the “de minimis” approach.<sup>83</sup>

As one court stated, a joint work is established pursuant to a two-part test. “First, it must show the parties intended to be joint authors at the time the work was created. Second, [it] must show that its contributions to the works were independently copyrightable.”<sup>84</sup>

#### iv) Works Made for Hire Doctrine

Authorship, and thus, ownership is often attributed from the actual creator to the creator’s employer.<sup>85</sup> The “works made for hire” doctrine transfers copyright ownership to the employer when (1) the employee created the work within the scope of employment, or (2) the work is “specially ordered or commissioned.”<sup>86</sup>

One branch of the doctrine allows employer attribution for works created within the scope of employment. The Supreme Court held that, in order to promote the goal of creating national uniformity in the copyright law, this analysis should focus on the federal agency laws.<sup>87</sup> The employer must demonstrate that, under the factors espoused by the Restatement (Second) of Agency, the creator was an employee, rather than an independent contractor. A few of the factors are the hiring party’s right to control the worker, the location of the work, the method of payment, the tax treatment of the worker, and the worker’s right to control his own work schedule.<sup>89</sup> If the worker is an employee and performed the work within the scope of employment,<sup>90</sup> the works made for hire doctrine grants the copyright to the employer.

The works made for hire doctrine also attributes ownership of the copyright to the author for works “specially ordered or commissioned.”<sup>91</sup> To qualify, two conditions must be satisfied. First, the parties must agree in writing that the work is a work made for hire. Next, the work must fall into one of nine enumerated cate-

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81. PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW, AND PRACTICE § 4.2.1.2 (1989).

82. MELVIN NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 6.07 (1996).

83. *Erickson*, 13 F.3d at 1070.

84. *Id.*

85. 17 U.S.C. § 201(b) (1994). The statute states that in the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all the rights comprised in the copyright.

86. *Id.* § 101.

87. *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989).

88. See RESTATEMENT (SECOND) OF AGENCY § 220(2) (1958) (providing a list of nonexhaustive factors for determining whether worker is employee or independent contractor).

89. *Reid*, 490 U.S. at 2178-79; see also *Aymes v. Bonelli*, 980 F.2d 857, 861 (2d Cir. 1992) (stating that the primary factors in the employee/independent contractor inquiry are

(1) the hiring party’s right to control the manner and means of creation; (2) the skill required; (3) the provision of employee benefits; (4) the tax treatment of the hired party; and (5) whether the hiring party has the right to assign additional projects to the hired party).

90. See *Roeslin v. District of Columbia*, 921 F. Supp. 793 (D.D.C. 1995) (stating that the employee is within the “scope of employment” under the Restatement (Second) of Agency when the work (1) is within the kind he is employed to perform; (2) occurs substantially within the authorized time and space limits; and (3) is actuated, at least in part, by a purpose to serve the master).

91. 17 U.S.C. § 101 (1994).

gories.<sup>92</sup> An effective agreement should be unambiguous<sup>93</sup> and signed by both parties.<sup>94</sup> There is some debate as to whether the agreement must be physically signed before the work is performed.<sup>95</sup> However, an “up front” agreement greatly reduces the prospects of litigation.

#### d. Copyright Registration and Notice

##### i) Benefits of Registration

Although copyright registration is not a prerequisite to ownership, it does provide significant benefits to the owner. In fact, copyright registration is arguably more important than trademark registration.<sup>96</sup> Copyright registration is also simple and provides many benefits.

Registration is required to attain certain remedies in an infringement suit, including damages and attorney’s fees.<sup>97</sup> Registration may cure errors or omissions in copyright notice.<sup>98</sup> If registration is made before first publication or within five years of publication, the certificate of registration is “prima facie evidence of the validity of the copyright and of the facts stated in the certificate.”<sup>99</sup> Finally, and most importantly, copyright registration is a prerequisite to an infringement suit.<sup>100</sup> Failure to register the mark effectively precludes the owner from suing as a plaintiff to protect the copyright.

##### ii) The Registration Process

If the author satisfies the three requirements of copyright ownership, he may register the copyright. The copyright process is more affordable and less risky than the trademark registration process. One cost saver in copyright registration is the ability to register without a preliminary search. Since two identical works may both receive copyright protection under the concept of independent coincidental creation, a search is not as important.

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92. *Id.* The work must be (1) a contribution to a collective work; (2) a part of a motion picture or other audiovisual work; (3) a translation; (4) a supplementary work; (5) a compilation; (6) an instructional text; (7) a test; (8) an answer material for a test; or (9) an atlas.

93. *Baltimore Orioles, Inc. v. Major League Baseball Players Ass’n.*, 805 F.2d 663 (7th Cir. 1986).

94. *Miller v. C.P. Chemicals, Inc.*, 808 F. Supp. 1238 (D.S.C. 1992); *Arthur Retlaw & Assocs., Inc. v. Travenol Labs., Inc.*, 582 F. Supp. 1010 (N.D. Ill. 1984).

95. *See Schiller & Schmidt, Inc. v. Nordisco Corp.*, 969 F.2d 410, 412 (7th Cir. 1992) (finding that the agreement must be signed before the work is developed); *but see Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 559 (2d Cir. 1995) (holding that the written agreement may be signed after the work if some type of agreement was present before the work was developed).

96. Copyright registration is a prerequisite to a federal infringement suit. Recall, however, that certain unregistered trademark owners may bring infringement actions in federal court under § 43(a). *See supra* note 33. There is no § 43(a) equivalent in copyright law.

97. 35 U.S.C. § 412 (1994).

98. *Id.* § 405(a)(2). The United States’ adherence to the Berne Convention, effective March 1, 1989, greatly mitigated this benefit. Following the adherence, copyright owners in the United States no longer have to affix copyright notice to the work. Therefore, the curative provisions apply only to works distributed prior to March 1, 1989.

99. 17 U.S.C. § 410 (1994).

100. 35 U.S.C. § 411(a) (1994); *see also supra* note 95.

The United States Copyright Office routinely grants certificates of registration.<sup>101</sup> Nonetheless, registration formalities do exist. The registrant must complete an application, including a copy of the work and a fee. Once the information is sent to the Copyright Office, it is reviewed and a certificate of registration is granted or rejected.

### iii) Copyright Notice

In a major reversal of prior copyright law, Congress abolished the necessity of copyright notice.<sup>102</sup> Currently, the affixation of notice to a copyrightable work is permissive. Nonetheless, providing notice is simple and confers significant benefits upon the copyright owner. The owner seeking these benefits must comply with specific notice formalities. Valid notice includes affixation of (1) the © symbol, or the words “copyright” or “copr”; (2) the date of the work’s first publication; and (3) the name of the copyright owner to the copyrighted work.<sup>103</sup> Due to the numerous forms of “tangible media of expression,” copyright notice may not always be affixed in a conventional manner.<sup>104</sup> The 1976 Act states that the owner must position notice in a “location as to give reasonable notice of the claim of copyright.”<sup>105</sup>

Valid notice may increase the owner’s damages award in an infringement suit. The affixation of notice precludes an infringer from mitigating his liability by claiming that he was an “innocent infringer.”<sup>106</sup> Notice also serves as a method to discourage others from copying the work.

## e. Loss of Copyright

### i) Voluntary Transfer

One of the most fundamental aspects of copyright law is that the author may transfer any or all of his bundle of rights. For example, a novelist may sell his story to a publisher for reproduction in hardback form, but not paperback or movie form. The ability to sell some rights and retain others is spelled out in § 201(d) of the 1976 Act. That section states that “ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law . . . .”<sup>107</sup> An instrument must describe the conveyance and include a signature of the transferor.<sup>108</sup>

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101. A report of the Copyright office stated that an examiner is expected to confront forty registrations per day. Correspondence with the registrant is necessary with only fifteen percent of the applicants. In the report, only three percent of the applications were rejected.

102. *See supra* note 96 and accompanying text.

103. 17 U.S.C. § 401(b)(1-3) (1994).

104. A novel might include a title page containing the following notice: © 1998 Gordon U. Sanford, III. However, a computer program may display notice on the user’s terminal at sign on.

105. 17 U.S.C. § 401(c) (1994).

106. *Id.* § 401(d).

107. *Id.* § 201(d). This was a great departure from the 1909 Act, which considered the rights to be indivisible.

108. *Id.* § 204.

## ii) Involuntary Loss

A copyright arises at creation and requires no use in commerce. Thus, a copyright is not abandonable. However, a copyright terminates fifty years after the death of the author.<sup>109</sup>

## 2. Practical Considerations

### a. Review the Business and Explain the Copyright Process

Not every business confronts copyright issues. Hence, the role of the business lawyer in the realm of copyright law varies, depending upon the nature of the business. For example, music publishing companies and computer programming outfits may encounter many copyright dilemmas. However, a brickyard or extermination company may operate for years without confronting copyright issues.

Regardless of the nature of the business, the business lawyer should assist the client in identifying copyright issues. For example, although a restaurant chain sells food, it also advertises and plays music. Questions may arise with regard to who owns the copyright on the advertising artwork. Is it the restaurant, the artwork designer, or the advertising agency? Music provided for the customers also presents copyright issues for the restaurant owner.<sup>110</sup> The business lawyer should address these and other copyright inquiries.

### b. Structure the Employment Relationship to Attain “Works Made for Hire” Status

An employer may acquire rights in a worker’s copyright if the worker is an employee of the business, rather than an independent contractor.<sup>111</sup> Therefore, a business lawyer should advise a company that develops copyrightable works to hire employees, rather than independent contractors. This desire for an “employee” label may be somewhat counterintuitive to the employer’s traditional business reasoning. Traditional business concepts, such as limited liability and tax savings,

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109. *Id.* § 302(a).

110. Generally, a restaurant owner may not publicly play music for his patrons, as it violates the copyright owner’s right of public performance under 17 U.S.C. § 106(4). However, the restaurateur may play the music in either one of two scenarios.

First, the restaurant owner may play the music if he obtains a license from a music clearinghouse, such as ASCAP or BMI. ASCAP and BMI members are the copyright owners of musical compositions. Businesses that pay license fees to ASCAP and BMI may play the members’ songs. ASCAP and BMI reduce the costs that would be required to facilitate agreements between copyright owners and individual business owners, such as restaurant owners and radio station owners. The individual business pays an annual license fee, and ASCAP and BMI remit the fee, minus operating costs, to their members.

Next, the restaurant owner may play the music without paying a license fee if he meets the “small business exemption” under 17 U.S.C. § 110(5), which encompasses “communication of a transmission embodying a performance or display of a work by the public reception of the transmission on a single receiving apparatus of a kind commonly used in private homes . . .” 17 U.S.C. § 105(1994). Obviously, this requires a factual analysis of the stereo components. Specifically, courts focus on the “type and sophistication of the equipment used, the size of the area in which the broadcast is audible, and whether the equipment has been altered, augmented, or integrated in some fashion.” *Broadcast Music, Inc. v. Claire’s Boutiques, Inc.*, 949 F.2d 1482 (7th Cir. 1991).

111. *See supra* note 88 and accompanying text.

often lead employers to characterize workers as independent contractors, rather than employees. For example, an employer is less likely to face liability under the doctrine of respondeat superior for the negligent actions of an independent contractor.<sup>112</sup> The business owner also saves employment taxes by compensating an independent contractor, as opposed to an employee.<sup>113</sup> These are valid financial reasons to hire independent contractors. However, as discussed previously, rights in intellectual property are often valuable business assets. Thus, a business lawyer should explain the legal consequences of the employee/independent contractor label to the business client.

If the business desires employee status for its workers, the business lawyer should assist the business in this endeavor. Although employee status is answered definitively only by courts, the employer may take certain actions to support its assertion that the worker is an employee. The first step is to draft an employee agreement that incorporates the Restatement of Agency factors.<sup>114</sup> The agreement should state that the worker (1) is an employee; (2) is subject to the rules and policies of the employer; (3) will perform the work at the employer's job site; (4) will perform the work with the employer's tools and materials; and (5) is expected to work pursuant to a work schedule determined by the employer. The agreement should also include a clause stating that copyrights acquired within the scope of employment belong to the employer.

The next step is for the business owner to treat the worker as an employee. This may be accomplished by maintaining a work schedule for the employee, maintaining a work area for the employee, providing tools and materials to the employee, and paying employment taxes on behalf of the employee. If the relationship is not structured as employer/employee, the business may not utilize the works made for hire doctrine.

### c. Create a Paper Trail

The United States Copyright Office does not issue copyrights. Instead, copyrights arise by operation of law when an original work of authorship is fixed in a tangible medium of expression. Thus, as a novelist writes words of a story onto paper, he acquires a copyright in the work. Since copyright acquisition is completely within the control of the author and registration is not mandatory, it is difficult for others to identify prior copyrights and avoid infringement.

The copyright owner can protect himself by creating a copyright paper trail. Under the doctrine of independent coincidental creation, two identical copyrighted works may coexist.<sup>115</sup> However, in certain situations, the prior owner may

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112. See *LaFleur v. LaFleur*, 452 N.W.2d 406 (Iowa 1990); *Santiago v. Phoenix Newspapers, Inc.*, 794 P.2d 138 (Ariz. 1990); *Kane Furniture Corp. v. Miranda*, 506 So. 2d 1061 (Fla. Dist. Ct. App. 1987).

113. See *Hospital Resource Personnel, Inc. v. U.S.*, 68 F.3d 421 (11th Cir. 1995) (holding that employer was not responsible for payment or withholding of employment taxes on independent contractor nurses); see also I.R.C. §§ 1401, 3401 (1994).

114. See *supra* notes 88-89 and accompanying text.

115. See *supra* note 64 and accompanying text.

bring an action for copyright infringement against the subsequent creator.<sup>116</sup> The paper trail will help the first author establish priority over the second author. The author should form the paper trail as he creates the work. Suggested components of the paper trail include detailed and dated notes describing the work, a notarized statement establishing the date of copyright, and memos describing the work. The paper trail creates evidence of priority in the event that litigation arises.

d. Register the Copyright

The business lawyer should counsel the client on the benefits of copyright registration. The application process is simple, inexpensive, and rarely results in rejection by the Copyright Office. Although registration does not create the copyright, it does confer significant benefits on the owner. Registration entitles the owner to the following: certain remedies in an infringement suit, including damages and attorney's fees; prima facie evidence of the copyright's validity; and a federal forum to pursue copyright infringement actions.

Registration does not have to immediately follow creation. For example, the copyright owner may register the copyright once he identifies a possible infringer. Even this late registration entitles the owner to use the federal court system.

e. Affix Copyright Notice

The business owner should affix notice to any copyrightable works. For example, notice for a book publishing company should be placed on the title page and read as follows: "© 1998 XYZ Publishing Co." The owner should affix the notice even on unconventional copyrightable works. The owner becomes entitled to damages against infringers so long as the notice is placed in a reasonable position.

f. Explore Tax Considerations<sup>117</sup>

Copyrights acquired after August 10, 1993 are subject to Internal Revenue Code § 197.<sup>118</sup> Like trademarks, the cost to develop and acquire a copyright must be capitalized and amortized over 15 years.<sup>119</sup> The copyright owner should recognize that, in order to receive § 197 treatment, the copyright must be "created in connection with a transaction or series of transactions involving the acquisition of assets constituting a *trade or business*."<sup>120</sup> Thus, an independent creator may not develop a film or write a book and amortize his costs over fifteen years.

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116. "To establish infringement, two elements must be proven: (1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original." *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991).

117. See *supra* note 52 and accompanying text.

118. I.R.C. §§ 197(a), 197(d)(1)(C)(iii) (1994).

119. *Id.* § 197(a).

120. *Id.* § 197(a)(2); Prop. Reg. § 197-2(c)(7) (1996).

The disposition of a copyright triggers tax to the transferor. Generally, if the transferor relinquishes control over the copyright, he will receive capital gain treatment on the sale of the copyright.<sup>121</sup>

### C. Patents

#### I. Patent Law<sup>122</sup>

##### a. What is a Patent?

The American patent system is traceable to Venice, in the mid-fifteenth century, and England, in the seventeenth century.<sup>123</sup> Patent law in the United States was originally vested in individual colonies. However, the framers of the Constitution sought national uniformity and enacted a federal patent law. The Constitution states that “[t]he Congress shall have 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.”<sup>124</sup> Pursuant to this power, the patent law currently operates under the Patent Act of 1952.

A patent owner maintains the exclusive right to “make, use, or sell” an invention.<sup>125</sup> The basic premise of patent law is that the inventor receives a monopoly on the invention for twenty years from the filing date of the patent application<sup>126</sup> in return for the disclosure of a valuable invention.<sup>127</sup> This policy encourages invention while preserving free competition in the marketplace.<sup>128</sup>

The 1952 Act protects utility patents,<sup>129</sup> plant patents,<sup>130</sup> and design patents.<sup>131</sup> The PTO grants the largest number of patents to inventions in the utility patent category. Thus, this Article focuses primarily on utility patents, with only limited attention given to plant and design patents.

##### b. Patent Elements

An inventor may obtain a patent when he “invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof . . . subject to conditions and requirements of” the

121. I.R.C. § 1253(a) (1994).

122. For an overview of the patent system, see Edward C. Walterscheid, *To Promote the Progress of Useful Arts: American Patent Law and Administration, 1787-1836 (Part 1)*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 61 (Jan. 1997); Edward C. Walterscheid, *To Promote the Progress of Useful Arts: American Patent Law and Administration, 1787-1836 (Part 2)*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 11 (Jan. 1997); Carlos J. Moorhead, *Improving our Patent System for a Stronger America*, 11 ST. JOHN'S J. LEGAL COMMENT 465 (1996).

123. See BRUCE BUGBEE, *GENESIS OF AMERICAN PATENT AND COPYRIGHT LAW* (1967) (tracing the origin of the American patent system).

124. U.S. CONST. art. I, § 8, cl. 8.

125. 35 U.S.C. § 271 (1994).

126. *Id.* § 154.

127. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

128. *Sears, Roebuck*, 376 U.S. at 225.

129. 35 U.S.C. § 101 (1994).

130. *Id.* § 161 (granting a patent to inventors of asexually reproduced plants).

131. *Id.* § 171 (granting a patent to inventors of ornamental design of articles of manufacture).

1952 Act.<sup>132</sup> The Supreme Court found that this definition is intended to be expansive and “include anything under the sun that is made by man.”<sup>133</sup> If a product or process falls within this expansive definition, three further statutory requirements must be satisfied. The invention must (1) have utility; (2) be novel; and (3) be non-obvious.

#### i) Utility

The 1952 Act grants a patent to “[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new useful improvement thereof . . . .”<sup>134</sup> The utility threshold is not difficult to satisfy. As an early court stated, “[a]ll that the law requires is, that the invention should not be frivolous or injurious to the well-being, good policy, or sound morals of society. The word ‘useful,’ therefore, is incorporated into the act in contradistinction to mischievous or immoral.”<sup>135</sup> The United States Supreme Court heightened the utility standard for process patents. The Court found that the process must be “reduced to production of a product shown to be useful” before the utility requirement is satisfied.<sup>136</sup> This restrictive application of utility is seemingly limited to process patent cases. Nevertheless, the inventor must establish some beneficial use of the product to meet the utility standard.<sup>137</sup>

#### ii) Novelty

Patent law entitles the inventor to the patent monopoly only if the public receives a “new” product. The novelty provisions of the 1952 Act provide specific bars to patentability. First, the invention is not novel if it was known or used by others in the United States at the date of the applicant’s invention.<sup>138</sup> If the invention has been previously disclosed to the public in a way that would allow a person of ordinary skill to replicate the invention, the invention is not novel.<sup>139</sup>

The next bar applies to inventions “described in a printed publication in this or a foreign country or in public use or on sale in this country more than one year prior to the date of the application for patent in the United States.”<sup>140</sup> This bar ensures public benefit and encourages prompt filing of patent applications.<sup>141</sup>

132. *Id.* § 101; *see also* *Diamond v. Chakrabarty*, 447 U.S. 303 (1980).

133. *Diamond*, 447 U.S. at 308.

134. 35 U.S.C. § 101 (1994).

135. *Lowell v. Lewis*, 15 Fed. Cas. 1018 (C.C.D. Mass. 1817) (No. 8568).

136. *Brenner v. Manson*, 383 U.S. 519, 534 (1966) (denying a patent on a process that produced a steroid which inhibited tumors in mice); *but see In re Krimmel*, 292 F.2d 948 (C.C.P.A. 1961) (holding that inventor had proved usefulness of his medicine although it had only been successfully tested on rabbits).

137. *See Fujikawa v. Wattanasin*, 93 F.3d 1559, 1563 (Fed. Cir. 1996) (finding that *in vivo* and *in vitro* tests established utility in a compound and method for inhibiting cholesterol biosynthesis in humans and other animals); *Stiftung v. Renishaw PLC*, 945 F.2d 1173, 1180 (Fed. Cir. 1991) (discussing the limited nature of the utility requirement: “An invention need not be the best or the only way to accomplish a certain result, and it need only be useful to some extent and in certain applications.”); *Rickard v. Du Bon*, 103 Fed. 868 (2d Cir. 1900).

138. 35 U.S.C. § 102(a) (1994).

139. *In re Borst*, 345 F.2d 851 (C.C.P.A. 1965).

140. 35 U.S.C. § 102(b) (1994).

141. *TP Labs., Inc. v. Professional Positioners, Inc.*, 724 F.2d 965, 968 (Fed. Cir. 1984) (listing the following factors to consider in applying § 102(b): “(1) protecting the public . . . where such use began prior to the filing of the application, (2) encouraging prompt disclosure of new and useful information, and (3) discouraging attempts to extend the length of the period of protection . . .”).

The inventor may not “test the waters” for a number of years and seek a patent only when he realizes that monopolistic protection is necessary. In that case, the invention falls into the public domain and becomes unprotectible unless the inventor can prove that he was making an “experimental use”<sup>142</sup> of the invention. The one-year period generally begins when the product is offered for sale, rather than when it is actually sold.<sup>143</sup>

Two more provisions of § 102 specifically address the novelty requirement. Section 102(d) precludes patent protection if the inventor filed a foreign patent application or certificate more than one year before he filed his U.S. patent application.<sup>144</sup> Furthermore, an inventor may not receive a patent if another inventor filed a prior application for the same invention and ultimately received a patent.<sup>145</sup>

### iii) Nonobviousness

While the novelty requirement bars patents on inventions that are identical to prior inventions, the nonobviousness approach disallows patents in a much broader sense. The nonobviousness approach bars patents on inventions which include only minor or obvious modifications to an existing invention. The nonobviousness test requires a comparison of the invention sought to be patented and “prior art.” As § 103 describes, a patent is barred for nonobviousness when “differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which the subject matter pertains.”<sup>146</sup> The United States Supreme Court segregated this definition into the following three factor analysis: (1) scope and content of the prior art; (2) differences between the prior art and the claims at issue; and (3) the level of ordinary skill in the pertinent art.<sup>147</sup> Courts explore these three considerations and certain secondary considerations.<sup>148</sup> If the new invention represents an obvious modification of an existing invention, the new invention is not patentable.

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142. See *In re Theis*, 610 F.2d 786 (C.C.P.A. 1979) (finding that the inventor has the burden of establishing an experimental use. The experimental use exception to § 102(b) is fairly limited and applies only to efforts to complete the invention, including certain sales to the public. *Theis* and *In Re Smith*, 714 F.2d 1127 (Fed. Cir. 1983), distinguished experimental use, which is an exception to § 102(b), from market testing, which is not an exception.); see also *TP Labs.*, 724 F.2d at 965 (holding that use of dental appliances on three patients was not an “experimental use” because there was no bona fide experiment and the inventor did not intend experimentation).

143. *Theis*, 610 F.2d at 789; *Metallizing Eng'g Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (2d Cir. 1946).

144. 35 U.S.C. § 102(d) (1994).

145. *Id.* § 102(e).

146. *Id.* § 103.

147. *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966).

148. *Id.* The court stated that “[s]uch secondary considerations as commercial success, long felt but unsolved needs, failure of others, etc., might be utilized to give light to the circumstances surrounding the origin of the subject matter sought to be patented.” *Id.* For example, the inventor may argue that if commercial success through a successful invention were obvious, then the first inventor would have developed it first.

### c. Acquiring the Patent

Unlike its trademark and copyright counterparts, which do not require federal registration, a patent is granted only after a successful application process in the PTO. Before the application process is described, an understanding of basic patent ownership concepts is essential.

#### i) Inventor

Only the inventor of a product may receive a patent on that particular invention.<sup>149</sup> An inventor may devise a scheme and explain it in great detail to an employee who ultimately constructs the product. If the scheme provides sufficient detail and instruction to the employee, the scheme provider will be considered the inventor of the product.<sup>150</sup> However, if the scheme provider “suggest[s] merely a desired result without any disclosure of the means by which it is to be attained,” then the employee is the inventor.<sup>151</sup>

#### ii) Joint Inventors

An invention may be the product of a joint effort by multiple inventors. Often, teams of engineers and scientists embark on joint efforts to invent a new and exciting product or process. The 1952 Act allows joint-inventorship when a “perfect machine is made” through the “joint labors” of inventors, even though the inventors “did not physically work together or at the same time, did not make the same type or amount of contribution, or did not make a contribution to the subject matter of every claim and of the patent.”<sup>152</sup> Joint inventorship does not require identical contributions from each creator. However, the inventors must combine forces to a certain degree.<sup>153</sup> If each person works completely independently or invents a distinct component of the machine, separate patents must be obtained.<sup>154</sup>

#### iii) Employee as Inventor—“Shop Rights”

Absent a contractual relationship, an employee/inventor is generally entitled to patent rights on his invention. There are two recognized exceptions to this rule. First, an employer may obtain nonexclusive rights in the patent where the employee invented the product with the employer’s resources, materials, and time.<sup>155</sup> This “shop right” enables the employer to use the invention without paying fees to the inventor. Although shop rights are available, courts differ as to the particular circumstances necessary to create the rights.<sup>156</sup>

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149. 35 U.S.C. § 102(f) (1994) (stating that “[a] person shall not be entitled to a patent unless he did not invent the subject matter sought to be patented”).

150. *International Carrier-Call & Television v. Radio Corp. of Am.*, 142 F.2d 493 (2d Cir. 1944).

151. *Id.* at 496.

152. 35 U.S.C. § 116 (1994); *Worden v. Fisher*, 11 F. 505 (E.D. Mich. 1882).

153. *Credle v. Bond*, 25 F.3d 1566, 1574 (Fed. Cir. 1994).

154. *Worden*, 11 F. at 508-09.

155. *See Hagwood v. Hewitt*, 119 U.S. 226 (1986); *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933); *McElmurry v. Arkansas Power & Light Co.*, 995 F.2d 1576 (Fed. Cir. 1993).

156. *McElmurry*, 995 F.2d at 1580-81.

The employer also acquires patent rights where the employee was hired specifically to do the type of research that is the subject of the invention.<sup>157</sup> The employer designates resources to an employee for specific results, and thus, the employer is entitled to the fruits of the employee's labor.

#### iv) The Patent Application

Federal application to the PTO is mandatory to receive a patent. Due to the complexity and technical nature of the patent application process, the general business lawyer should engage the services of a patent attorney in preparing the application. Considering the scope of this Article, only a brief overview of the application process is presented.

A complete patent application is filed in the PTO.<sup>158</sup> The application must contain a written description of the invention, a drawing of the invention, a signed oath of the inventor, a filing fee, and other specifications.<sup>159</sup> One essential feature of the application is the claim(s) of the patent. This categorizes the patent by subject matter. Thus, the inventor sets the protectible boundaries of his patent in the claim.

Once the application is submitted, the PTO conducts an extensive search for prior art. Based on its findings and a review of the application, the PTO accepts or rejects the application. If the application is rejected twice by the PTO, there are two levels of appeal. First, the inventor must appeal to the Board of Patent Appeals and Interferences.<sup>160</sup> If still unsuccessful, appellate review proceeds to the Federal Circuit Court of Appeals.<sup>161</sup> The average delay between application and issuance of a patent is two years.<sup>162</sup>

#### v) Patent Notice

As with trademarks and copyrights, patent notice is permissible.<sup>163</sup> However, notice bestows crucial benefits on the owner. Valid notice is comprised of the word "patent" or "pat.," accompanied by the patent number issued by the PTO.<sup>164</sup> As a general rule, the notice must appear on the patented item.<sup>165</sup> The affixation of patent notice provides two advantages. First, it entitles the owner to damages against innocent infringers. In the absence of such notice, the infringer must have received notice in some other form, such as an infringement suit, to be liable for damages.<sup>166</sup> Next, the marking serves as an offensive mechanism against potential infringers. Potential infringers will hesitate to pursue a patent

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157. *Solomons v. United States*, 137 U.S. 342 (1890).

158. 35 U.S.C. § 111(a) (1994).

159. *Id.* § 111(b).

160. *Id.* § 134.

161. *Id.* § 141.

162. KINNEY & LANGE, OVERVIEW OF INTELLECTUAL PROPERTY FOR BUSINESS LAWYERS 1992 9 (1992).

163. 35 U.S.C. § 287(a) (1994).

164. *Id.*

165. *Id.*

166. *Id.*

on an invention that bears the word "patent." In the absence of an issued patent, the patent applicant may mark his invention with the words "patent pending." Although this pre-patent notice has no legal significance, it does deter others from copying the product.<sup>167</sup>

a. Loss of Patent Rights

i) Voluntary Transfers

Two avenues of voluntary assignments of patent rights exist. First, the inventor may grant a license in the patent. This entitles the licensee to limited use, while the inventor maintains significant rights and control in the patent. An inventor may instead decide to assign the patent. The assignee becomes the owner of the patent and makes payment to the inventor, usually in the form of a royalty interest.<sup>168</sup>

These assignments may be completed before the patent is actually granted. Because of the uncertainty of the issuance of a patent, the assignee should carefully draft the contract to ensure that royalties are not paid for an invention that is in the public domain.<sup>169</sup> Registration of the assignment or license in the PTO should be completed in order to establish prima facie evidence of the transfer.<sup>170</sup>

ii) Involuntary Loss

Abandonment may occur before the inventor receives a patent in the invention. Where the inventor's actions evidence an intent to relinquish his rights in the invention to the public, he may not seek a patent.<sup>171</sup> The inventor should take precautions to keep the invention as confidential as possible prior to the application for patent.

Rights in the patent are also limited in duration. The patent expires twenty years after the application's filing date.

2. Practical Considerations

a. Review the Business and Explain the Patent Process

The general business lawyer may not encounter many inventor clients. Furthermore, the business lawyer will probably not possess the technical training necessary to effectively counsel clients on patent issues. Nevertheless, the business lawyer may represent clients that face patent issues. Thus, the business lawyer should be able to help the business owner identify such issues. If, upon review

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167. Christopher C. Larkin, *Traps for the Unwary: Avoiding Some Common Mistakes in Intellectual Property Law*, 27 BEVERLY HILLS B.A. J. 89, 93 (1993).

168. 35 U.S.C. § 261 (1994).

169. See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979) (upholding a contract that was completed during the pendency of a patent application. The contract did not include any time limitation for the payment of royalties, and the PTO rejected the patent application. The court held that the assignee was obligated to pay the inventor royalties, even after the application was rejected.); see also *infra* notes 170-72 and accompanying text.

170. *Id.*

171. 35 U.S.C. § 102(c) (1994).

of the business, the lawyer discovers that a protectable product or process may arise, he should briefly explain the patent process to the client. The lawyer should specifically mention that (1) patents are valuable assets; (2) the inventor will receive the exclusive authority to make, use, or sell the invention for twenty years, upon the successful completion of a patent application; (3) the business/employer may acquire patent rights from an inventor/employee; and (4) patent matters are very technical, and thus, a qualified patent may be necessary.

#### b. Know a Patent Attorney

The details of the patent law are highly technical. This Article briefly addresses only a fraction of the many components of the patent law. Considering the technical and voluminous nature of this work, the business lawyer should identify and become acquainted with a patent attorney. The patent attorney is trained not only to answer legal questions, but also to serve as a technical consultant on patent matters. The patent attorney provides many valuable services, such as facilitating the registration process and representing the client in patent infringement litigation.

The technical abilities of a patent attorney are evident in the patent bar requirements. Lawyers seeking to practice before the PTO in patent matters must pass a patent bar examination. Just to qualify as an examination candidate, the applicant must demonstrate that he possesses the scientific and technical training necessary to enable him to render valuable services to applicants for patents. This demonstration is satisfied where the applicant has one of several designated technical bachelors' degrees. Engineering and science degrees fulfill the degree requirement. Other degrees that provide scientific and technical training are also included on the approved list.<sup>172</sup>

#### c. File the Patent Application Promptly and Create a Paper Trail

The patent owner risks losing his monopoly by failing to promptly file a patent application. Due to the technical nature of the patent application, this duty should be referred to a patent attorney. Under the 1952 Act, the invention may be in use no greater than one year before filing an application.<sup>173</sup> This is not a friendly requirement to the inventor who would like to test his invention for a few years to see if it is worth protecting. Nonetheless, the prompt filing requirement forces the patent owner to stand firmly behind the invention before its public release.

The inventor should keep detailed journals of his invention process. Patent priority in the United States resides in the first to invent a product. This differs from the vast majority of other countries which base priority on the patent appli-

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172. For a complete description of the examination requirements, see the PTO's home page at <http://www.uspto.gov/web/offices/dcom/olia/oed/genreq.html>.

173. 35 U.S.C. § 102(b).

cation date. Thus, the American inventor should document relevant dates of his invention schedule. This provides evidence to the Patent Office when priority discrepancies arise.

d. Structure the Employment Agreement to Allow the Acquisition of Employee/Inventor's Patent Rights by the Employer

Generally, an employee/inventor is entitled to exclusive patent rights in his invention. However, the employer may acquire rights in the patent when: (1) a contract so provides; (2) the employee invented the product with the employer's resources, materials, and time (shop rights); or (3) the employee was hired specifically to do the type of research that is the subject of the invention.

A primary function of the business lawyer is to provide certainty and to avoid costly litigation. The business lawyer may provide certainty by drafting carefully worded employee agreements. For patent-oriented businesses, the agreement should provide that the employer will receive rights in any patent on inventions created by the employee within the scope of employment. It should contain language that (1) the employee has been hired to invent on behalf of the employer and (2) the employee's inventive work will be subsidized with the employer's resources. In order to encourage invention by employees, the agreement should include language that compensates the employee for the invention. In the absence of an employment agreement, the employer *may* be able to rely on the court-created "shop rights doctrine."

e. Limit the Scope of Assignment/Licensing Contracts

The business may decide to purchase patent rights through a license or assignment. This may occur even while the patent application is pending in the PTO. A contract which governs the license or assignment generally includes royalty provisions. For example, a business may agree to pay the inventor five percent of the selling price of each product in return for the rights to make and sell the invention. The agreement should limit the duration of the royalty payments in the event that a patent is not granted and the invention falls into the public domain.

Contractual language should state that royalty payments terminate soon after rejection of the patent application by the PTO. If the agreement does not use language of limitation, a court may construe the royalty payments to be perpetual, notwithstanding an unsuccessful patent. This could be detrimental to the business, which was required to make royalty payments while competing businesses were able to freely use the invention without making royalty payments.

The case of *Aronson v. Quick Point Pencil Co.*<sup>174</sup> illustrates the importance of language of limitation. In *Aronson*, the plaintiff filed an application for a patent on a keyholder. Quick Point Pencil Company contracted with plaintiff for the exclusive right to make and sell the keyholders. Plaintiff was to receive five per-

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174. 440 U.S. 257 (1979).

cent of the selling price of each keyholder. The contract also provided that, if the application was “not allowed within five (5) years, Quick Point [would] pay two and one half percent (2 1/2 %) of sales . . . so long as [Quick Point] continue[d] to sell the [keyholders].”<sup>175</sup>

Later in the same year, the PTO issued a final rejection of the patent application. Even without the patent, the keyholder enjoyed great success. Following great financial success and fourteen years of royalty payments, Quick Point sought to void the royalty provisions. Quick Point alleged that the royalty payments were unfair because the keyholder was in the public domain and could be made and sold by anyone.

The Supreme Court rejected Quick Point’s claim. The Court found that the parties contracted with “full awareness of both the pendency of a patent application and the possibility that a patent might not issue.”<sup>176</sup> Quick Point enjoyed a headstart over competitors in return for royalty payments. Since the assignment contract did not limit the duration of royalty payments in the event that plaintiff’s patent application was rejected, the Court found that the payments were required so long as the keyholders were sold by Quick Point. However, competing businesses could make and sell the keyholders without making any royalty payments. Ironically, had the patent been granted, Quick Point would have been obligated to make the royalty payments only during the seventeen-year life of the patent.

#### f. Explore Tax Considerations<sup>177</sup>

Patents acquired by a business after August 10, 1993 are also subject to Internal Revenue Code § 197.<sup>178</sup> Like trademarks and copyrights, the cost to develop and acquire a patent must be capitalized and amortized over fifteen years.<sup>179</sup> The patent owner should recognize that, in order to receive § 197 treatment, the patent must be “created in connection with a transaction or series of transactions involving the acquisition of assets constituting a *trade or business*.”<sup>180</sup> The disposition of a patent triggers tax to the transferor. Generally, if the transferor relinquishes control over the patent, he will receive capital gain treatment on the sale of the patent.

### D. Trade Secrets

Trade secret protection is one of the most valuable services a business lawyer may provide to a business client. The problems in this area generally arise when an employee leaves a business and misappropriates valuable information of the employer. The business lawyer should assist the business in establishing a com-

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175. *Id.*

176. *Id.*

177. See *supra* note 52 and accompanying text.

178. I.R.C. §§ 197(a), 197(d)(1)(C)(iii) (1994).

179. *Id.* § 197(a).

180. *Id.* § 197(a)(2); Prop. Reg. § 197-2(c)(7) (1996). Patents which are not amortizable under § 197 may receive depreciation treatment under I.R.C. § 167. See Michael A. Sartori, *Tax Ramifications of Recent Changes in the Patent Laws*, 49 TAX LAW 981 (1996).

prehensive trade secret protection plan. Protection of trade secrets is most effective when addressed at the formation of the business, rather than after the employee departs.

### 1. Trade Secret Law<sup>181</sup>

#### a. What is a Trade Secret?

The spectrum of trade secrets encompasses many articles of corporate information. Trade secrets may include items such as formulas, processes,<sup>182</sup> confidential marketing information,<sup>183</sup> customer lists,<sup>184</sup> computer software,<sup>185</sup> negative information, and other valuable information. Trade secret law, unlike trademark, copyright, and patent, is governed exclusively by state law. Trade secrets are not registered with any office; rather, protection attaches upon the satisfaction of statutory elements. If a trade secret is established under state law, the trade secret receives perpetual protection, subject to continuing conditions.

#### b. Choice of Law

Because trade secrets are a creature of state law, the business lawyer should ascertain the applicable statutory scheme. The majority of states have adopted a version of the Uniform Trade Secrets Act (UTSA). However, some states continue to employ the predecessor to the UTSA—the Restatement of Torts.<sup>186</sup> Although the definitions of trade secret differ only slightly under the two schemes, there *are* some important inconsistencies. Due to the scope of this Article and the fact that the vast majority of states have adopted the UTSA, only the UTSA is described in the following sections. However, since even UTSA states cite the Restatement as persuasive authority, a business lawyer consulting a client should familiarize himself with both approaches.

#### c. Trade Secret Elements

To qualify as a trade secret under the UTSA, three elements must be satisfied. The trade secret must (1) be generally not known or ascertainable by proper means; (2) have independent economic value; and (3) be the subject of efforts that are reasonable, under the circumstances, to maintain its secrecy.<sup>187</sup>

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181. For an overview of trade secrets, see Miguel Deutch, *The Property Concept of Trade Secrets in Anglo-American Law: An Ongoing Debate*, 31 U. RICH. L. REV. 313 (1997); Jeffrey Anne Tatum & D. Peter Harvey, *Trade Secret Audits: Risks of Loss and Strategies for Protection*, 429 PLI/PAT 383 (Feb. 1996); David A. Schwab, *Keeping the "Secret" in Trade Secrets*, 15 No. 2 ACCA DOCKET 8 (March/April 1997).

182. See *Forest Labs., Inc. v. Formulations, Inc.*, 452 F.2d 621 (7th Cir. 1971) (holding that tempering portions of a packaging process were trade secrets).

183. See *PepsiCo., Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995) (holding that former PepsiCo. employee, who had knowledge of PepsiCo.'s confidential strategic sales plan, could not compete against his former employer).

184. See *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 521 (9th Cir. 1993) (holding that a customer database was a trade secret); *Morlife, Inc. v. Perry*, 56 Cal. App. 4th 1514 (1997).

185. See *MAI Systems*, 991 F.2d at 522.

186. RESTATEMENT (FIRST) OF TORTS § 757, cmt. b (1939).

187. UNIFORM TRADE SECRETS ACT § 1(4) (1994).

### i) Not Known or Ascertainable

Secrecy is the most fundamental aspect of trade secret. The business must demonstrate that the matter is common knowledge to neither the general public nor the particular industry. Absolute secrecy is not required to meet this element. Instead, there must be some degree of secrecy coupled with measures to protect the information.<sup>188</sup>

The element of secrecy is not satisfied if the information is readily ascertainable by proper means. If competitors possess the ability to simply view the product and independently discover the information, there is no secret. There are other means of properly discovering a trade secret, including independent invention, accidental disclosure, and reverse engineering.<sup>189</sup> If any of these means of discovery could easily uncover the information, there is no secret.

### ii) Independent Economic Value

The information must provide a substantial business advantage over others in the industry.<sup>190</sup> Proof that a company expended great resources to develop the information is relevant to this inquiry.<sup>191</sup> Furthermore, the specific economic advantage the information provides is also important. For example, a customer list may have economic value because it allows a company to focus only on top customers. A company without such information would be required to spend capital to target a much broader and uncertain segment of the population.

### iii) Maintaining Secrecy

A plan to protect the secret is required to receive trade secret protection. This places an affirmative duty upon the owner to maintain secrecy or lose the secret in the public domain. Absolute secrecy is not required. Instead, the owner “must take all proper and reasonable steps” to protect the information.<sup>192</sup> The level of protection varies, based upon the type of information and the surrounding circumstances. Various protection measures are discussed in the *Practical Applications* section below.

### iv) The *Abbott* Factors

A trade secret arises under the UTSA when the three-prong test is satisfied. However, courts often employ a more detailed test in determining whether a trade secret exists. If the business is able to satisfy the six factor *Abbott*<sup>193</sup> test, a trade secret necessarily exists under the UTSA or the Restatement. The six fac-

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188. *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 901 (Minn. 1983).

189. *E.I. duPont deNumours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970).

190. *Forest Labs., Inc. v. Formulations, Inc.*, 299 F. Supp. 202, 208 (E.D. Wis. 1969).

191. *Surgidev Corp. v. Eye Tech., Inc.*, 828 F.2d 452 (8th Cir. 1987).

192. *USM Corp. v. Marson Fastener Corp.*, 393 N.E.2d 895, 902 (Mass. 1979) (holding that safeguards, including nondisclosure agreements and limited plant tours, were adequate protection); *but see* *J.T. Healy & Son, Inc. v. James A. Murphy & Son, Inc.*, 260 N.E.2d 723 (Mass. 1970) (finding inadequate protection due to lack of (1) confidentiality policy for employees, (2) nondisclosure agreements, and (3) segregation of work areas).

193. *Abbott Labs. v. Norse Chem. Corp.*, 147 N.W.2d 529 (Wis. 1967).

tors are as follows: (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken to guard the secrecy of the information; (4) the value of the information to the business and its competitors; (5) the amount of effort or money expended by the business in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.<sup>194</sup> The business lawyer should contemplate each of these factors and develop a comprehensive trade secret protection plan for the business client accordingly.

#### d. Misappropriation of the Trade Secret

Once the owner establishes that a trade secret exists, he is protected against unlawful misappropriation. Misappropriation occurs under the UTSA when one acquires or discloses a trade secret by "improper means."<sup>195</sup> The UTSA gives examples of improper means, including "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic means."<sup>196</sup> This list includes only a sample of improper means. Other examples of improper means are breaking and entering, breach of implied contract based upon unjust enrichment,<sup>197</sup> and aerial reconnaissance.<sup>198</sup> For example, misappropriation would occur where a person entered a plant and stole a secret process. It could also occur where an employee of one company started to work for a competitor and used secret customer information in the new job.

As discussed, a trade secret may be acquired by another if it is acquired through "proper means." Proper means include independent invention, accidental disclosure, and reverse engineering. For example, a group of scientists could study a product and independently determine the secret process underlying the product. The touchstone of proper means is the energy and resources spent to independently identify the trade secret.

## 2. Practical Applications

### a. Review the Business and Explain the Trade Secret Concept

The business lawyer may drastically increase his value to the business client by designing methods to protect valuable trade secrets. As with other areas of intellectual property, the lawyer should first familiarize himself with the particular entity. Not only will the client appreciate the interest, but the review will also help the lawyer identify potential trade secret issues. In particular, the lawyer should recognize possible trade secrets and assist the client in protecting the

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194. *Id.*

195. UNIFORM TRADE SECRETS ACT § 1(2) (1994).

196. *Id.* § 1(1).

197. *Thermotrim v. Mobil Oil*, 194 U.S.P.Q. 450 (W.D.N.Y. 1964).

198. *E.I. duPont deNumours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970).

secrets. This protection should include an explanation of trade secret law to the client. The lawyer should specifically mention that (1) trade secrets are valuable assets; (2) trade secrets receive perpetual protection; and (3) trade secrets receive perpetual protection only while they remain secret and efforts to maintain their secrecy are in place.

b. Develop a Comprehensive Trade Secret Protection Plan

Encountering clients with trade secrets is common for business lawyers. For example, a customer list may qualify as a trade secret to a highly competitive sales business. A computer programming company may have a trade secret in its design of a new program. These situations frequently arise, and thus, the business lawyer and the client should develop a comprehensive trade secret protection plan. Listed below are seven components that attempt to maintain the secrecy of trade secrets.

i) Develop a Written Protection Policy

The most important aspect of trade secret protection is the creation of a paper trail. Although unfortunate, court intervention may be necessary to protect trade secrets. Courts focus on the company's reasonable efforts to maintain the confidentiality of the trade secrets. Thus, physical evidence of protection efforts is vital. A written company policy manual listing trade secrets and specific protective measures is a simple and inexpensive method to create such evidence. The policy should encompass areas such as hiring and departure, handling of confidential documents, and physical security. Each employee should receive a copy of the policy manual and should be required to complete a brief examination of its contents.

ii) Require a Confidentiality Agreement

Many trade secret problems arise upon the departure of an employee. Therefore, the employer should require each new employee to sign a confidentiality agreement. This is most effectively accomplished during the employee's orientation period. As the employee signs tax forms and residency affidavits, he should also sign a confidentiality requirement. The agreement may take many forms; however, it should always outline confidential information within the company and stress the importance of maintaining the confidentiality. It should also specify that the employee must return all confidential information to the employer upon departure.

The confidentiality agreement facilitates two important functions. First, it emphasizes the importance of confidentiality to the employee from day one of employment. Next, it demonstrates a reasonable effort to maintain secrecy. The employer should, therefore, require the confidentiality agreement and should explain to the employee that the agreement is a condition of employment.

### iii) Emphasize the Importance of Confidentiality in the Workplace

Companies that possess trade secrets should conduct an ongoing campaign of confidentiality. This includes a continuous effort to remind employees and vendors that certain information or processes are confidential. As this message resonates throughout the office, it becomes more difficult for departing employees to assert ignorance of any trade secrets.

### iv) Deal Effectively with Paper

Because trade secrets are often included in various documents, the employer should implement a strategy to facilitate the movement of paper throughout the office. Hypersensitive information should be handled by higher level employees, if possible. These employees realize the importance and monetary value of confidentiality. Documents that include trade secret information should also be stamped "Confidential." This places the employees on notice that the process or information outlined in the document is secretive in nature. Secured areas should house sensitive documents. Preferably, this information should be locked in file cabinets, desks, or vaults. Finally, employees should shred all documents which are no longer needed.

### v) Deal Effectively with Electronic Information

Many companies use computers to conduct business. If the company computers contain trade secrets, protection measures should be employed. The company should employ a computer expert to provide electronic security throughout the office. Security measures may include user passwords, limited Internet use, and greater levels of computer access for higher level employees.

### vi) Provide Physical Security in the Workplace

Physical security in the workplace is an essential component of the comprehensive trade secret protection plan. Areas of the plant that contain trade secrets should be identified. Locked entrances should also guard these areas. Employees of these areas should wear designated identification badges. Security cameras serve an important function in the confidential zones. They record actual misappropriation and deter potential misappropriation.

Many companies provide public tours of facilities. This is a useful public relations tool, but may also serve as an opportunity for trade secret misappropriation. Strict protective measures are necessary in conducting the tours. First, visitors should tour only non-secured areas. Even in these areas, some level of camera monitoring is probably necessary. Next, visitors should wear identification badges. The badges limit access to only non-secured areas.

### vii) Conduct an Exit Interview

The exit interview is an excellent opportunity for the employer to remind the employee of his continuing obligation of confidentiality. The employer should

review the confidentiality agreement with the departing employee. A joint brainstorming effort by the employer and employee should identify specific trade secrets of which the employee is privy. Finally, the employee should sign a statement that he acknowledges his continuing obligation of confidentiality.

### III. CONCLUSION

Why does the business lawyer profession exist? We would like to think that business lawyers help in protecting and enhancing the value of businesses. In commercial real estate, titles are checked and documents are reviewed to make sure that the business owner is receiving marketable property. Taxation matters are scrutinized to reduce the amount of precious capital which must be transferred to the government. Certain entities are selected over others to reduce potential liabilities. Each of these facets of business law saves the client money.

In assisting business clients, intellectual property services should become part of the business lawyer's repertoire. One commentator put this in perspective by stating that "[i]n today's world of rapidly emerging new technologies, often pioneered by relatively small start-up companies, the entire commercial value of a company may depend upon the extent of its intellectual property rights and its relationships with employees who develop or apply such technology."<sup>199</sup>

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199. Anthony F. Lo Cicero, David W. Maher, Robert F. Scoular, *Acquiring or Selling the Privately Held Company: Intellectual Property Issues*, 849 PLI/CORP. 69, 72 (June-September 1994).

