

## TRAPS FOR THE UNWARY — AVOIDING MISTAKES IN IP PROTECTION

### 1. Introduction

As a business law and intellectual property specialist, I have seen certain recurring mistakes, misconceptions, missteps, and mind-sets when potential clients and even business lawyers are confronted with the mysterious world of trademarks, patents, copyrights, trade secrets, and other forms of intellectual property. This newsletter shares experience regarding a few frequent “traps for the unwary.”

### 2. Mixing Apples and Oranges — How Do I Patent This Name”?

One of the most common difficulties encountered by clients is simply identifying and labelling the particular form of intellectual property involved in a matter. Different bodies of statutory and common law and different procedures apply to the development, protection, and defence of different intellectual property rights. A potential client must have enough familiarity with the various forms of intellectual property to identify and properly differentiate them in order to determine what must be done to protect legal interests.

What distinguishes “intellectual property” from other forms of business property? The answer lies primarily in the fact that intellectual property typically cannot be counted, inventoried, or even looked at, as can real property, inventory, or equipment. In fact, intellectual property is not really property at all; the things that we call intellectual property are really rights to do certain things, to authorize others to do certain things, and to prevent others from doing certain things. There are three forms of intellectual property that are most commonly encountered by business lawyers: (1) trademarks, (2) copyrights, and (3) patents.

**Trademarks**, service marks, trade names, slogans, product configurations, package designs, and a variety of other things serve as corporate symbols; they identify a company and distinguish its goods or services from the goods or services of others. The common characteristic of these corporate symbols is their ability to embody a company's good will and to assure purchasers of the company's goods or services of a certain level of quality. Rights in these corporate symbols are typically infringed by a competitor's use of the same or a similar symbol in a manner that causes people to confuse the source of the competing goods or services. For the most part, the development and protection of these rights finds its basis in the common law supplemented by federal law.

**Copyrights**, by comparison, are entirely creatures of federal statute. “Copyright” is not so much a thing as it is a bundle of rights relating to copyrightable works of authorship such as computer programs, paintings, or novels. The law of copyright gives the owner(s) of that bundle of rights the exclusive right to make and distribute copies of the work, to modify the work, to display or perform the work, or to import copies of it, and to authorize others to do those things. The rights encompassed within copyright are typically infringed by doing one or more of these acts without the consent of the copyright owner(s).

**Patents**, like copyrights, are entirely a creature of federal statute. Patents protect certain designs, processes, mechanical features, compositions of matter, and other types of inventions. Like copy-

right, a patent is best viewed not as a thing, but as a right to exclude others from making, using, or selling the invention disclosed in a patent. Because a patent is a legal monopoly, strict rules apply to what can be monopolized and the way in which the monopoly is obtained.

There are other types of rights, some of which are discussed below, which can be labelled “intellectual property.” Why are any of these labels important? Because clients often manifest remarkable confusion between the various forms of intellectual property; they may ask to “patent this name” or “trademark this idea.” At a minimum, clients need to know the basic nature of the most common forms of intellectual property to determine what type of intellectual property is involved in a client's matter and what steps should be taken to achieve the client's objectives.

### 3. The Panama Canal Syndrome — I Bought It, I Paid for It, It's Mine—Isn't It?

Businesses typically own what they pay for. When a business buys raw materials, there is rarely an issue regarding ownership; money and title change hands and that is the end of the matter. Unfortunately, the same general rules do not apply when a business buys certain forms of intellectual property. Worse yet, businesses often do not recognize that they are buying intellectual property at all and they assume that, as with our raw materials example, ownership of a tangible thing that may contain intellectual property is the end of the matter.

Consider, for example, situations in which a company's advertising agency prepares the company's new print advertising campaign, or a software developer is retained to write a computer program for a company's own internal use or for sale by the company, or one of the company's sales representatives is asked to develop graphic materials for the company's booth at an upcoming trade show. What do these situations have in common? They company receiving the services and the tangible results of the services may pay a considerable amount of money for them and may work side-by-side with the service provider to produce something tailored to the company's particular needs. General contract law and business sense would suggest that where the company contributes to and pays for the end result of the efforts of the service provider, the company owns the resulting work product. That is not necessarily true, and failure to recognize the intellectual property ownership issue implicated in these situations may be costly.

Materials such as advertisements, computer programs, and promotional literature, taken from the above examples, contain copyrightable subject matter under the United States and Canadian Copyright Acts. The “author” of a copyrightable work is typically the person whose intellectual and artistic efforts result in the creation of the work; in the case of a computer program, for example, the author is the person who wrote the program. The key exception to this rule is the work-for-hire doctrine, which provides that the copyright in “a work prepared by an employee within the scope of his or her employment” belongs to the employer.

Who is an “employee” for purposes of the work-for-hire doctrine? In today's economy, the concept of “employment” has undergone substantial revision; there are now “part-time employ-

ees,” “flex-time employees,” and myriad other relationships between a company and people who provide their labour and services for compensation. The Supreme Court in Canada held that a person's status as an “employee” depends upon the application of the general common law of agency to the person's status. Key to this determination is “the hiring party's right to control the manner and means by which the work product is accomplished.” The Supreme Court listed a lengthy, but non-exclusive set of factors to consider in making this determination, including the skill required, the source of needed instrumentalities and materials, the provision of employee benefits, the tax treatment of the putative employee, the ability of the putative employer to assign additional tasks, and the method of payment. An “employee” for work-for-hire purposes is probably easy to identify in the case of a traditional salaried employee, but with the nature of the modern work relationship changing rapidly, business owners should be careful to assess whether any particular person is an “employee” with regard to a particular copyrightable work. It is worth noting that an “employee” for one purpose, such as employee benefits law, may be an “independent contractor” for purposes of the work-for-hire doctrine.

An outside service provider such as an advertising agency or a software developer will almost never be an “employee” for work-for-hire purposes. Who owns the copyright in the works that the service provider creates at significant expense to its client? Generally the service provider. The client may have a license to use the work in the intended manner, but ownership of the copyright remains in the author. The same situation may exist, unbeknownst to the company or the individual, where a person viewed as an “employee” is asked to undertake a specific project or to do something outside of his or her normal duties. An “employee” who is paid on a per-project basis or who “moonlights” in the creation of a work may not create a work-for-hire.

What is the risk in these situations if all parties concerned believe that the company owns whatever it has paid for? Nothing is forever. The cases are replete with instances in which collaborative creative relationships have soured and disputes have arisen over ownership of the fruits of the collaborations. Clients in these situations need to protect themselves by getting appropriate assignments of the copyrights.

#### 4. “What's in an ‘Identity’ ”?

The depiction of people in advertisements for goods and services is well established and most clients know that a person's name or picture cannot be used in an advertisement without permission. The law has expanded substantially to protect many other personal characteristics and attributes, however, and failure to take such rights into account may expose clients to substantial liability. Business owners need to be sensitive to the right of publicity issues arising any time a client's advertising or promotional materials implicate a person, particularly a celebrity, in any fashion. What's in an identity? A lawsuit for your business if you are not careful.

#### 5. “I've Got a Secret—Don't I?”

Secrecy is important in many forms of business. Under appropriate circumstances, the law will protect the secrecy of a com-

pany's information (such as customer lists or manufacturing know-how) and will prevent other companies from using such information for competitive benefit. Many business people learn the basics of trade secret law the hard way, however, when a court rebuffs the company's lawsuit by holding that the company's secret is no secret at all in the eyes of the law.

Common law sets forth two basic requirements for the protection of information as a “trade secret.” First, the information must have independent economic value “from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use.” Second, the information must be “the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” The first requirement is typically easily met; most information that is worth taking is so precisely because the taker can obtain economic value (or avoid time and expense) by taking it. The second requirement is the common problem for businesses. Too many companies find that “the cat is out of the bag” when the time comes to assert a claim against an ex-employee or a competitor. Why is that so? Probably because the legal and business definitions of “secret” differ. For most businesses, “secrecy” is a concept measured relative to those outside of the company; as long as the rest of the world does not know something, it does not matter who within the company does. From a legal standpoint, however, it is precisely those within the company (and their new employers in the future) who are most likely to be the defendants in a trade secret lawsuit. The law thus often considers “secrecy” from the standpoint of just who it is within the company who must know certain information for it to be used effectively. If disclosure of the information within the company is broader than to members of that group, the information may not be “secret”.

#### 6. “Patent Pending” and Other Patent Problems

The world of patents is a mystery to many business lawyers (and to many intellectual property lawyers who do not practice patent law). Two fundamental misconceptions about very basic tenets of patent law appear to be frequent: (1) the significance of the words “Patent Pending” on a product, and (2) the time period in which patent protection is available after a product is introduced.

What do the words “Patent Pending” on a product mean? Absolutely nothing in a legal sense. They may mean, of course, that the manufacturer of the product has filed an application for a patent in the United States Patent and Trademark Office or Canadian Intellectual Property Office, but the mere filing of a patent application has no legal significance. Patent applications are confidential and information on the applicant and the claimed invention is rarely available. The patent monopoly and the right to collect damages for infringement of the patent do not arise until a patent has issued. Businesses are often unnecessarily frightened off by the appearance of “Patent Pending” on a product and they should be advised that these words, by themselves, should not cause them to refrain from copying or otherwise using a product in their own business.

An equally common, but much more significant misconception is that patent protection is available for an unlimited period of time after a product is introduced. That is not the case, and business owners need to be aware that a “filing clock” is ticking once they

engage in certain acts regarding the subject matter of their claimed inventions. A patent application both in Canada and the U.S.A. must be filed within 12 months of the disclosure of the claimed invention in a printed publication anywhere in the world, or its public use or sale in Canada and the U.S.A., or the subject matter of the invention is no longer eligible for a patent. Many entrepreneurs devote a significant amount of time to the promotion of their invention before counsel is consulted; sometimes, lawyers are consulted only after the invention has been sold successfully for some period of time. Entrepreneurs should be aware that time is short in such circumstances, and those who are in the business of product development should be sensitive to this concern.

## 7. Registration Rumours and Realities

Businesses frequently labour under important misconceptions about what it means to “register” trademarks and copyrights. In fact, a lot of them do not even refer to “registration” at all. The words “trademark” and “copyright” become verbs used to describe the manner in which rights are secured and the intellectual property specialist is asked to “trademark this name” or “copyright this work.” These misnomers can have important consequences because they obscure both the circumstances under which trademark and copyright rights arise and the circumstances in which registration of the rights matters to their enforcement.

Contrary to popular belief, trademark rights and the rights encompassed in copyright do not arise as a result of some action of the federal government. Trademark rights are created by use of the mark (or name or slogan or whatever) in connection with goods or services. The scope of those rights (the “ambit of protection” against conflicting uses and users) is generally defined by priority, nature, and extent of the actual use of a trademark. Registration confers upon the registrant certain important substantive and procedural benefits, but does not create the enforceable right itself. Unregistered marks can be enforced under both federal and state law, and the Lanham Act in the U.S.A. and Trade-marks Act in Canada make the remedies for infringement of an unregistered trademark virtually identical to those for infringement of a registered mark.

Shifting gears to copyright for a moment, creator’s interest in “copyrighting” its work reflects a misconception that registration of the work somewhere in Washington, D.C. or Ottawa, Ontario creates the right. Registration of the work in the United States Copyright Office and Canadian Copyright Office instead creates the remedy (or, more precisely, allows the registrant to seek the remedy in litigation), but the right exists from the moment the work is completed. The bundle of rights comprising copyright exist from that point on through the term of the copyright even if a claim to copyright is never registered. A registration is required under most circumstances, however, to enforce the copyright against an infringer. Creators need not register their works when copyright arises, but the failure to register them promptly may make certain important remedies unavailable in subsequent litigation where a work is registered only after an infringement of it commences.