

7 Key Areas of Intellectual Property Every Business Lawyer Should Know

tics invite trademark peril.

Trademark protectability varies based on the mark's distinctiveness, with the greater distinctiveness reaping the greater protection. Courts have developed the following hierarchy of distinctiveness, from most distinctive to least distinctive: (1) "fanciful" (a "made up" word that has no meaning at all other than the trademark meaning - Exxon®), (2) "arbitrary" (real words used in a manner that is totally unrelated to the goods they designate - Apple® Computers), (3) "suggestive" (a trademark which indirectly describes the

goods or services - Coppertone®, (4) "descriptive" (trademarks minimally distinctive and immediately inform the consumer of the product's characteristics and uses), and (5) "generic" (trademarks simply refer to the product or service - Cellophane). Generic trademarks are not protectable. Descriptive trademarks are protectable only upon the establishment of "secondary meaning" which occurs when the trademark holder can prove that the public connects the descriptive trademark with the origin of the goods, rather than with the goods themselves. Business

names based on geography or surnames are generally considered descriptive trademarks.

Based on these levels of protection, the business owner faces an important balancing act. He should attempt to select a name in the suggestive trademark category. This provides trademark protection without requiring an expensive advertising campaign that would be necessary to make the public aware of the goods and products behind a fanciful or arbitrary mark. Also, if the business plans to expand through franchising, mergers, or otherwise, trademarks that enjoy no protection or protection only with secondary meaning should be avoided.

(2) Register the Business's Trademarks and Copyrights

Most new businesses prudently attempt to minimize start up costs. However, various local, state and federal agencies mandate various certifications that require time and fees. Does trademark or copyright protection require registration? Absolutely not. Does *complete* trademark or copyright protection require registration? Absolutely. In a short period of time and for relatively low cost, the business can register its trademarks and copyrights, thereby greatly enhancing intellectual property protection and business value.

Trademark protection arises not through registration, but through adoption and use of a distinctive mark in interstate commerce.ⁱⁱⁱ Generally, the use of a trademark in a market precludes others in that market from subsequently using a confusingly similar mark on the same class of goods. While not required, trademark registration increases trademark protection. As federal and state law concurrently govern trademark matters, the trademark owner should register at the federal and state levels. Thus, the prudent Mississippi business would submit an application to the United States Patent and Trademark Office, along with a \$335 per class of goods filing fee, and an application with the Mississippi Secretary of State, along with a \$50 fee. This combined registration provides the trademark owner with important benefits such as nationwide and statewide notice to potential users of similar marks, prima facie evidence of the

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trademark's validity, federal and state fora for controversy, use of the ® symbol, and statutory damages against infringers.

Copyrights, governed exclusively by federal law, arise in original works of authorship fixed in any tangible medium of expression.^{iv} The categories of work subject to copyright are (1) literary works, (2) musical works, (3) dramatic works, (4) pantomimes and choreographic works, (5) pictorial, graphic, and sculptural works, (6) motion pictures and other audiovisual works, (7) sound recordings, and (8) architectural works.^v For example, when an employee sketches an original illustration for company literature, a copyright in the illustration arises as a matter of law, notwithstanding the failure to register the copyright. With few exceptions, copyright ownership provides the owner during his life plus seventy additional years, an exclusive "bundle of rights" including the rights to make copies, distribute copies, create derivative works, perform and display the works. However, if the owner satisfies the copyright test, submits an application form to the United States Copyright Office, deposits a sample of the work, pays a \$30 fee, and receives official notification of the registration, additional rights, including the following inure to the benefit of the owner: a public record of the copyright, the right to pursue copyright infringement actions, and claims for attorneys fees and statutory damages in infringement actions (this benefit is available only where the owner registers the copyright within three months of publication of the work or before infringement of the work). Each of these benefits increases the protectability and value of the subject copyright.

(3) Avoid Copyright Infringement by the Business

When most lawyers or business owners think about copyright law, they generally assume that it only pertains to businesses involved in certain industries such as publishing, music, media, or advertising. However, copyright law, has expanded well beyond these areas to include items such as belt buckles, video games, and taxidermy forms. With the virtually unlimited access to copyrighted information via the Internet and other sources, there is a looming possibility that a com-

pany's employees may purposefully or accidentally infringe an existing copyright. Copyright violations can subject employers to substantial damages including actual damages, profits attributable to the infringement, and in the alternative there are statutory damages available ranging from \$200 for innocent infringement to \$150,000 for willful infringement.

Several areas of potential concern for employers include photocopying violations, posting information on employer web sites, and software copyright infringement. With the ubiquitousness of copy machines and the growing use of digital scanning technology, the violation of copyrights is a very real possibility for many businesses. Employers should establish clear policies for their employees on photocopying and scanning. Such policies should at a minimum address the following: (1) recognizing copyrighted works, (2) determining whether the employer or a third party created the work, and (3) establishing the process for obtaining legal clearance for photocopying and distributing copyrighted works.

To avoid copyright infringement related to company websites, employers should make sure employees carefully consider whether a work is in the public domain or if permission has been obtained to use the work. Unfortunately, many employees treat material posted on websites as if it was all part of public domain and freely pirate other people's copyrighted material. Employee training, specific policies, and regular monitoring of the company website can reduce these problems. Finally, software violations are unfortunately very common for many businesses. In order to combat this problem, employers should take proactive steps including (1) taking an inventory of all software in use in the company, (2) creating a software license library and log, (3) establishing procedures for registering all software, (4) conducting audits of company software on a period basis, and (5) establishing employee training.

Generally, to avoid claims of copyright infringement on critical business functions, employers should make sure that employees document the creative process. To further rebut any claims of infringement, employees should forgo using or having access to any copyrighted

work while in the creative process. Regardless of whether a company is in the business of creating copyrighted works as a major function of their business, or whether the use and creation of works are incidental, the prudent business owner will take reasonable precautions to avoid the unnecessary expense and damage to reputation of a copyright claim.

(4) Establish the Business's Copyright Ownership – "Works for Hire"

Bearing in mind that intellectual property comprises some, if not most of a business's value, ownership questions are extremely important. Unfortunately, businesses that fail to properly plan for the creation of intellectual property within the business, may find that the individual creator such as an employee, independent contractor or consultant, and not the business owns the intellectual property.

Copyright ownership issues frequently arise in the business setting. To the victors go the spoils, and to the creator of the work goes the copyright and the accompanying bundle of rights.^{vi} This creates a special problem for the business seeking to increase the value of its business and intellectual property portfolio. The law addresses this special problem through the "works for hire" doctrine which attributes ownership of the copyright from the actual creator to the creator's employer where an employee creates a work within the scope of his employment.^{vii} Thus, where a traditional employee as defined by factors enumerated in the Restatement of Agency (employer's right to control the worker, location of the work, method of payment, tax treatment of the worker, worker's right to control work schedule) creates the work, copyright ownership lies with the employer.

However, businesses frequently opt for independent contractor labor over employee labor for reasons such as benefit cost savings, avoidance of perceived long term commitment, tax savings and limited liability. The works for hire doctrine attributes copyright ownership from an independent contractor to his employer only for limited categories of works, and only where the parties have executed a written works for hire agreement.^{viii} Therefore the business engaged in the cre-

Continued on next page

7 Key Areas of Intellectual Property Every Business Lawyer Should Know

ation of copyrightable works by independent contractors should require the independent contractors to sign works for hire agreements before creation commences.

For example, suppose a manufacturer of fishing lures hires an independent contractor photographer to photograph underwater action shots of the lures. The photographs will be used as color slides by the company's sales force. If the photographs satisfy the originality standard because the photographer incorporates techniques such as special lighting, lenses and angles, copyrights could arise in the photographs. As an independent contractor, copyrights would likely reside with the photographer, and if the company extended its use of the photographs to its online catalog, it might expose itself to copyright infringement claims by the photographer.

The company could avoid copyright infringement by using a traditional employee to capture the photographs and relying on the works for hire doctrine to acquire ownership of the copyright. Or, it could attempt to obtain ownership in the copyrighted photographs by executing a written works for hire agreement with the

independent contractor photographer and satisfying itself that photography fits into one of the specified categories.

What if the business does not have the demand, capital or expertise to employ a full time photographer? Or, what if the copyrighted work, such as a photograph is not included in one of the specified categories?³⁸ In such cases, the company should execute a written contract with the independent contractor photographer that includes work for hire language. As the photograph may fall outside of the work for hire subject matter, the agreement should also provide the company with exclusive and unlimited use, both in scope and duration, of the copyrighted works. This agreement will provide a two-pronged attack against future litigation by the photographer – (1) the company owns the copyright, and (2) if the company does not own the copyright, it owns an exclusive and unlimited license in copyrighted works.

(5) Protect the Business's Trade Secrets

A company's proprietary information is often one its key marketplace advan-

tages. For example, Coca-Cola's well kept secret formula has helped the company earn billions of dollars over the last hundred years. This type of information may constitute a "trade secret." Trade secrets can include customer lists, proprietary recipes and formulas, business plans, special formulas, processes, pricing and accounting formulas, and research and development information.

Trade secrets are largely regulated by state law, and Mississippi is one of 44 states to have adopted the Mississippi Uniform Trade Secrets Act ("MUTSA"), that provides for the protection of trade secrets. The MUTSA defines a "trade secret" as information including a formula, pattern, compilation, program, device, method, technique or process that: (1) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.³⁹

Mississippi does not have a well developed body of law interpreting the MUTSA; however, the case law does give practitioners some guidance for assisting their clients in protecting their trade secrets. For example, in *Fred's Stores of Mississippi, Inc. v. M & H Drugs, Inc.*, 725 So.2d 902 (Miss.1998), the Mississippi Supreme Court found that the plaintiff's customer list met both prongs of the two part test for establishing a trade secret. Addressing the first prong, the Court determined that the customer list had "economic value" because the information on the customer list was not information known to the defendant or generally ascertainable by proper means, and that the defendant could obtain economic value from the disclosure of the list. Secondly, the Court found that the plaintiff had taken reasonable efforts to maintain the secrecy of the customer list by putting it on a computer and protecting it with a password.

Practical pointers for the average business regarding trade secrets include: (1) once trade secret information has been identified, diligently take efforts to protect the information; (2) utilize thorough confidentiality and non-disclosure agreements with employees, contractors, customers,

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and vendors when applicable to protect trade secrets; (3) if such protective agreements are utilized, be consistent in their use with ALL applicable parties; (4) protect customer lists and other trade secret information by keeping them in a safe place, and when the information is on computers use password protections.

(6) Protect the Business's Software

Even where the business does not sell, market or license computer software, software protection is important. For example, many companies utilize custom software in their business operations. There are generally three key intellectual property strategies for protecting computer software: copyrights, trade secrets and patents. Software is considered a "literary work" under copyright law, and affords the owner copyright protection. However, there are limitations on the effectiveness of protecting your software through copyrights. Copyrights only protect the expression of an idea and not the idea itself. Therefore, someone may copy the idea behind the software program without actually infringing. Courts vary on the tests for determining whether a software program is infringing, but the predominant test is known as the "abstraction - filtration - comparison test."^{xi} This test results in a detailed analysis where the software is closely reviewed and non-protected expression is removed before the actual infringement comparison is made. In general, this analysis has resulted in less protection for computer software owners; however, copyright remains an easy, economic, and useful step in protecting company software.

Businesses may also treat and protect software as a trade secret. The main drawback with using trade secret protection for software is that the business must use reasonable efforts to maintain the secrecy, and once the business publicly disseminates the software, it is very difficult to maintain secrecy. This is particularly difficult because software can be "reverse engineered." The Mississippi Supreme Court has recognized that the reverse engineering of software in certain situations can be an acceptable means of ascertaining a trade secret.^{xii} The best method of dealing with the problem of reverse engineering is through the use of effective

licensing agreements which prohibit any reverse engineering.

Finally, businesses may seek patents for computer software. While patent analysis is beyond the scope of this article, it is interesting to note that, in the late 1970s, computer programs were not generally thought to be patentable.^{xiii} However, subsequent court decisions have established that computer software program may be patentable if it meets the criteria for patentability (useful, new, and non-obvious).^{xiv} Patents afford considerable protection since they allow the patentee to prevent others from making,

A business may decide to register copyright protection in software, seek patent protection on certain aspects of the software, and keep other aspects of the software a trade secret.

using, selling, offering to sell, or importing into the U.S. the patented software. The patentee may enjoin any infringing activity or may derive no less than a reasonable royalty by licensing the patented invention. Independent creation is not a defense to a charge of patent infringement, even though such a defense is available for a charge of copyright infringement. Patents, however, are substantially more expensive than the other forms of protection and do not derive from any common law right, but instead require an application to the U.S. Patent Office along with full disclosure of those aspects of the software for which patent protection is desired. The patent process in the U.S. is slow - taking about 3 to 4 years from the time a patent application is filed to the time a patent issues, if the patent is granted. In contrast, copyright registration averages \$30, requires disclosure of only part of the program, allows redaction of trade secret information, and can be finished in a matter of months, if not shorter.

The use of copyrights, trade secrets and patents are all potentially effective in providing protection for the software owner. These types of protection are not mutually exclusive but instead comple-

ment each other. For instance, a business may decide to register copyright protection in software, seek patent protection on certain aspects of the software, and keep other aspects of the software a trade secret. Choosing the best course for your clients will depend on the factual circumstances of each client.

(7) Be Aware of Intellectual Property Issues in Mergers and Acquisition

The discussion of intellectual property issues in the merger and acquisition setting falls appropriately as the last segment of this article. Pre-acquisition due diligence requires analyses of many issues, including those discussed above, to maximize the value of the acquisition and minimize the risk of acquiring infringing intellectual property.

Following the typical merger or acquisition, one entity (the "Acquirer") generally owns the assets formerly owned by another entity (the "Target"). Business attorneys regularly perform due diligence prior to consummating a merger or acqui-

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sition. Due diligence should include a thorough analysis of the Target's intellectual property assets and liabilities. Intellectual property due diligence serves two important and related functions. First, it helps establish the value of the Target and the ultimate transaction price. Next, it allows the Acquirer to assess risks associated with the intellectual property, and an opportunity to mitigate those risks.

As part of the intellectual property due diligence, the Acquirer should consider many issues including (1) the types of

intellectual property that will be acquired, (2) whether the Target owns the intellectual property, (3) whether the intellectual property is protectable, and if so to what degree, (4) whether potential infringement claims exist, (5) whether after the acquisition, the Acquirer will be able to increase protection of the intellectual property and reduce the likelihood of infringement, (5) and whether licenses held by the Target may be assigned to the Acquirer.

For example, suppose a web design company agrees in principle to purchase

an upstart software development company. The small software company uses independent contractor labor to write the underlying code. In its mere six month existence, the software company has licensed its new inventory software product to several businesses throughout the state. While performing the pre-acquisition due diligence, the web design company should thoroughly explore intellectual property issues such as (1) whether the software company has works for hire agreements with its independent contractors, (2) whether the software company has registered its copyright in the code, and (3) whether the licenses are valid, enforceable and transferable.

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Conclusion

By following some of the simple practice points outlined in this article, attorneys and their clients can begin to proactively address intellectual property matters to help mitigate risks and protect valuable business assets. As each business's factual circumstances differ, the practitioner will have to carefully evaluate the particular business's needs to develop the right intellectual property plan. ■

ⁱ15 U.S.C. 1127; Miss. Code Ann. 75-25-1(a). Names of businesses that provide services rather than goods are considered service marks. A service mark is the same as a trademark except that it identifies the source of a service rather than a product.

ⁱⁱ 15 U.S.C. § 1114; Miss. Code Ann. § 75-75-23

ⁱⁱⁱ Chance v. Pac-Tel Teletrac, Inc. 242 F.3d 1151 (9th Cir. 2001)

^{iv} 17 U.S.C. § 102(a)

^v Id.

^{vi} 17 U.S.C. § 201(a)

^{vii} 17 U.S.C. §§ 101, 201(b)

^{viii} 17 U.S.C. § 101

^{ix} SHL Imaging, Inc. v. Artisan House, Inc., 117 F. Supp.2d 301, 312 (S.D.N.Y. 2000) (finding that a photograph is not included in the works for hire subject matter)

^x Miss. Code Ann. § 75-26-3(d)

^{xi} Computer Assoc. Assoc. Int'l v. Altai, 982 F.2d 693 (2d Cir. 1992)

^{xii} Marshall v. Gipson Steel, Inc., 806 So. 2d 266 (Miss. 2002)

^{xiii} Gottschalk v. Benson, 409 U.S. 63 (1972); Parker v. Flook, 437 U.S. 584 (1978)

^{xiv} Diamond v. Diehr, 450 U.S. 175 (1981); State Street Bank & Trust Co. v. Signature Financial Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998)