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IP Law FAQ

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CONTENTS

INTRODUCTION

TRADE SECRET LAW

Basics	3
Liability	7

TRADE MARK LAW

Basics	9
Liability	14

COPYRIGHT LAW

Basics	15
Liability	23

PATENT LAW

Basics	25
Liability	27

CONCLUSION

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INTRODUCTION

The following are frequently asked questions about intellectual property (“IP”) law and brief, general answers. I discuss basic concepts and liability issues related to trade secrets, trademarks, copyrights, and patents. This e-book is a high-level overview that will help entrepreneurs distinguish between the main types of IP law and understand some common terms. My blog, IPLawforStartups.com, will give in-depth educational information about each topic and explain IP issues that are important for startups.

Q. I’m really busy starting my own company, why would I want to learn about intellectual property law now?

A. The most important time to learn about IP law is when you are thinking about starting a company or taking the first steps. You can avoid many common blunders and missteps that entrepreneurs make if you have basic knowledge about IP law. It’s very easy for an entrepreneur to create an intellectual property ownership mess.

- Entrepreneurs may blur the lines of IP ownership when they work for someone else while working on their new business if they don’t take precautions.
- They may contaminate their new company’s IP with trade secrets or copyrights owned by their former employers.
- They may pick a business or product name that infringes another company’s trademark.
- They may not file for federal registrations for trademarks or service marks on their own great brand names.
- They may hire amateur logo and Web designers, fail to get an IP assignment, pay for IP they don’t legally own and prevent themselves from being able to file for federal copyright registrations and get statutory benefits.
- Entrepreneurs may fail to take the steps necessary to protect the IP they create for their new ventures.
- Software developers may incorporate open source code that has unfortunate licensing restrictions on derivative works that prevents them from selling their new product.
- Some software entrepreneurs have even landed in jail for failing to understand criminal trade secret statutes.

TRADE SECRET LAW

Basics

Q. Why is trade secret law important for startups?

- A.** Many startups have been sued for trade secret misappropriation by their employees' former employers. It is critical for a startup to have a clean house free of unauthorized IP from third parties.

Many entrepreneurs don't know what they can take or use from their old jobs because they don't understand what might be a trade secret. Consequently, they may take and incorporate trade secrets into their new work and create an IP nightmare. This is common in the software industry.

Trade secret law is also important because many startups can't get or afford patent protection and so they use trade secret law to protect their key IP assets including software source code and other applications.

Q. What types of laws protect trade secrets?

- A.** Trade secrets are protected under state law that varies somewhat from state to state. Most states have adopted the Uniform Trade Secrets Act ("UTSA") but some states still use the standards from the *Restatement of Torts*. Trade secrets are also protected under state criminal statutes and the Federal Economic Espionage Act.

Q. What kinds of information may be protected by trade secret law?

- A.** Confidential business, scientific, and technical information. Examples include:
- business plans
 - customer lists
 - pricing
 - personnel information
 - methods, techniques, and program designs for implementation of software applications

- information about the combination of elements in the public domain, including open source software
- design specifications
- sources of content
- index configurations
- algorithms
- linking structures
- financial information
- Intranet and Internet applications

Q. What is a trade secret?

- A.** Most simply, trade secrets are secret, protected information that confers a competitive advantage.

Specifically, the UTSA defines a trade secret as:

“[I]nformation, including a formula, pattern, compilation, device, method, technique or process, that: (i) 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 (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

The Restatement of Torts defines a trade secret as:

“A trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.”

Q. What are the requirements for “trade secret” status?

- A.** To be protected by trade secret law the information must be:

1) Secret. If the information is not reasonably secret, the law won’t protect it no matter how valuable. This is the requirement that the information isn’t generally known by

competitors and that they can't easily get the information from just looking at a product, promotional materials, or a Web site.

2) Protected. If a business wants legal protection, a business must also take reasonable measures to protect information from unauthorized disclosure and keep it secret.

This is where a lot of businesses, especially startups, screw up. They fail to take reasonable precautions to protect their valuable information and then they are mad when they can't get legal protection because they didn't meet the minimum requirements.

3) Information. Generally, what's litigated as a trade secret is information, like software source code, customer lists, business plans, financial data, designs, technical methods and procedures.

What also makes some lawyers and judges crazy is that the method of putting together non-secret pieces can be a trade secret. For example, if you use open source software but modify it in a secret way that gives you a competitive advantage, the modifications—the secret sauce that makes it work in a great, new way—can be a trade secret.

4) Competitive Advantage. Finally, to qualify as a trade secret, the information must give a competitive advantage. Under the UTSA, the competitive advantage may be an actual or potential advantage. A "competitive advantage" means that access to the information would save a competitor time or money or give it a competitive edge. For example, if a competitor saw your source code and the information they learned saved them development time and cost, that would be a competitive advantage.

Q. What are reasonable measures to protect trade secrets?

A. Reasonable measures may include the following:

Marking. A trade secret owner should mark trade secrets as confidential and have a marking policy.

NDAS. A trade secret owner should use non-disclosure agreements with its employees, independent contractors,

vendors, or other third parties **before** disclosing confidential information. This is critical in court as evidence of trade secrets.

Verbal Warnings. A trade secret owner should identify and warn people when it considers specific information to be confidential and warn them not to use or disclose the information to other parties **before** they disclose confidential information.

Physical restrictions. A trade secret owner should only give highly confidential information to those who have a need to know it. Source code should be locked down and access restricted. Software should be distributed in object code. Access to highly confidential information should require a password or specific authorization.

Q. How long does trade secret protection last?

A. Trade secret protection can last as long as the requirements for protection are met and the information stays secret. This is one of the primary advantages of trade secret protection over a patent, which has a protection expiration date.

TRADE SECRET LAW

Liability

Q. What is misappropriation of trade secrets?

A. Unauthorized use or disclosure of trade secrets by those who have a duty of confidentiality or by improper means.

Q. When do I have a duty not to disclosure trade secrets?

The duty to not use or disclose trade secrets may arise because of a contractual provision in a non-disclosure contract.

The duty may arise automatically under a fiduciary duty of an employee *even without a contract*. Most people don't understand this concept. They think that if they didn't sign anything, they don't owe a duty of non-disclosure. Wrong. They can be sued for misappropriation even if they didn't sign an NDA if they had a fiduciary duty which arises from employment.

The prohibition against trade secret theft may also arise under a State's criminal code or the federal Economic Espionage Act.

Q. What is "improper means"?

A. "Improper means" generally includes illegal activity like fraud, misrepresentations, theft, bribery and espionage. Basically, you can't steal confidential information and avoid liability.

Q. When is trade secret litigation most likely?

A. In my experience, trade secret litigation is most likely against former employees, especially if they form a new competing company. Litigation is also more likely against a group of old employees.

Trade secret litigation frequently gets personal. Anger or feelings of betrayal can spur litigation.

Litigation is also more likely if the former employer has evidence of suspicious activity including a high number of downloads of

confidential documents prior to departure or evidence of source code being taken. Old employers are more likely to sue if the startup receives funding or is about to launch a competing product. Success breeds litigation.

Q. What are the possible damages for trade secret misappropriation?

Trade secret litigation frequently revolves around a preliminary injunction. A trade secret owner usually tries to stop the continued use or disclosure of the trade secret, which may involve stopping the sale or distribution of products or work by specific people. A trade secret plaintiff can also seek damages and profits related to the use of the trade secrets. A plaintiff may also try to obtain the IP rights to what was built with the trade secrets. Sometimes a plaintiff will seek damages that equal the entire value of the startup. Damages claims can be in the millions or hundreds of millions, even against a startup.

Q. What are the types of penalties for violation of criminal trade secret statutes?

A. There have been some state and federal criminal prosecutions that have involved jail time and fines. For example, under California's trade secret law, in Silicon Valley, Avanti Corporation was ordered to pay \$195 million to Cadence Design Systems for stealing the source code from its main software products. Seven former Cadence employees who joined Avanti were fined or imprisoned. The founder of Avanti and several co-founders served jail terms. The CEO was placed on probation and fined \$2.7 million.

In Texas, two former Texas Instruments employees took unauthorized copies of a computer program and joined a competing startup. They were convicted of felonies and sentenced to two years in jail and fined \$5,000.

Under the federal Economic Espionage Act of 1996, in Pennsylvania a defendant was sentenced to fifteen months for taking computer discs and blueprints. Federal prosecutions are rare but they do happen occasionally. For interesting reading about the Justice Department's criminal prosecutions go to <http://www.cybercrime.gov/>.

TRADEMARK LAW

Basics

Q. What is a trademark?

- A.** In short, trademarks are brand names. They identify the source of a product. For example, the trademark "Apple" along with the bitten apple identifies computer products made by Apple and distinguishes them from computer products sold by other companies.

Technically, when marks are used to identify services they are called service marks but they are treated the same and are sometimes called trademarks. If you are selling a service, like software development or life coaching, and not a product, you would get a service mark for your company name.

Q. What can be trademarked?

- A.** Trademarks can be names, words, slogans, pictures, graphics or sounds used to distinguish a product in commerce. They may include logos or graphic designs. Generic functional words are not protected. The mark must be actually used in commerce.

Q. Can any type of business or product name be protected?

- A.** No. Moreover, the strength of a mark—it's degree of protectiveness—varies. Some terms cannot be protected. Some terms may be protected only after use in advertising and gaining distinctive meaning.

There are four categories of marks, which increase in strength: 1) generic; 2) descriptive; 3) suggestive; and 4) arbitrary and fanciful.

Generic: A common name for a product can't be protected. For example, the terms "life coach" or "software" can't be trademarked.

Descriptive: A name that describes a product's ingredients, use, purpose, quality, characteristic or function can only be

protected if consumers associate the mark with a single source of the product and not just the product generally. This usually takes years of use, advertising and sales. For example, the terms "Life Coaching for Women" or "Super Fast Software" are descriptive and generally not protected.

Suggestive: A name that only subtly suggests a quality of the product can be a trademark upon commercial use. Some imagination is necessary to link the name to the goods. For example, "Career Renegade" is a registered service mark for providing career information.

Arbitrary and Fanciful: These marks bear little or no relationship to the product. They may be made up words or words that do not describe the product in any way. They gain protection immediately upon commercial use and are the strongest marks. They are also the easiest marks to register and protect. For example, the name "Apple" for a computer is arbitrary. The term "Google" for computer services is also random.

Q. Why is trademark law important for my business?

A. It's a good idea to trademark your company name and your product names to avoid consumer confusion regarding the source of your products or services and to prevent others from passing off their goods or services as yours.

A trademark helps you build your brand identity and consumer goodwill. Most importantly, you want to obtain a federally registered trademark to help ensure that you can continue to use the mark yourself.

A protectable trademark can also help you stop others from taking and using your names or similarly confusing names, especially by acquiring related domain names and using the mark on other social media sites.

To get a trademark, there must not be a "likelihood of confusion" with a similar mark used for goods or services.

Q. What are basic steps to take before picking a name for my business or products?

A. At a minimum, it's important to do a few simple searches on a proposed business or product name. Professional searches are available but they can be expensive for a startup.

None of these steps, including a professional search, will guarantee that you can use a name for a mark in your business, but they can help increase the likelihood that you can use a specific name. Searches can also help you spot easy, potential infringement issues, like the existence of a federal registration.

Easy steps to check if someone is using an identical or similar mark include the following:

- 1) Check the domain registrations. Warning! If the .com domain is taken for your name you should research whether the name is being used as a trademark. Is the name used to identify goods or services? This is a big, big red flag that you may not be able to use the name as a mark.
- 2) Do a Google search for the name you want to use and check if a business is using the mark to identify goods or services.
- 3) Do a free TESS trademark search in the federal registry on the name to check for federal registrations. You can also search by a person or company's name to see their registrations.
(<http://tess2.uspto.gov/bin/gate.exe?f=searchss&state=4010:mi1hj5.1.1>)
- 4) Find out whether someone is using the identical mark.
- 5) Find out whether someone is using a similar mark for the same type of product or services in the same market.

If you have more time and want to be more careful, you can check with the Secretary of State Office in different states for use of the name for a company.

Trademark law prohibits use of a mark if there is a likelihood of confusion to consumers. Do not use a name for your business or product if it is likely that consumers would be confused about the origin of a good or service. If potential buyers might think that your product comes from another company, don't use the name.

Q. Why research names before I use them?

A. It can be an irritating, expensive, waste of time to build a brand on a business or product name that potentially infringes another company's trademark and requires you to stop using the mark. You may be sued for infringement and nobody wants that.

Q. I was able to use the name for incorporating my company, could I still be liable for trademark infringement?

A. Possibly, if you use the mark in commerce nationally. This is a big issue today with the common use of the Internet. Corporate lawyers generally don't check whether a potential business name is a trademark. Sometimes the name is available from a state for incorporation but it can still potentially infringe another company's mark if used in a different part of the country or over the Internet.

Q. What protection does a trademark have?

A. You can use trademark rights to prevent others from using a confusingly similar mark to designate similar goods or services.

Q. How long does trademark protection last?

A. Trademark protection may last as long as you continually use the mark in commerce. There are ongoing fees and requirements to keep a federal registration alive.

Q. Do I need to register my trademark?

A. When you start using a mark in commerce to designate origin of the goods or services, you establish some rights to the mark.

Many companies, however, register their trademarks because there are significant advantages. First, registration gives notice to the public of your right. Other companies are less likely to use your mark if it is registered.

Second, like copyrights, registration is required for legal action in federal court.

Third, registration gives rise to a legal presumption that you have the right to use the mark. It gives you clear ownership

status to bring complaints against others who are using your identical mark or confusingly similar mark in a domain name under the UDRP.

Finally, some companies maintain registration of their trademarks so they can prevent damage to the image and goodwill generated by their famous trademark. For example, the owners of the trademark ToysRUs successfully brought a lawsuit against a pornographic site adultsrus.com.

Q. Can I designate my rights to my mark?

- A.** When you claim rights to a mark, even if it is not registered, you can use the "TM" for goods or "SM" designation for services. Once your mark is officially registered you can use the official symbol ®.

TRADEMARK LAW

Liability

Q. What is considered trademark infringement?

A. To be liable for infringement under trademark law, the protected mark must be used in commerce in connection with the sale or advertising of goods or services. Private or noncommercial use is not actionable under trademark law. Moreover, for liability, the use of the protected mark must be likely to confuse consumers about the source of the goods or services. If consumers are not confused, there is no infringement.

Q. Why is federal trademark registration important?

A. Registration is required for federal litigation. A trademark owner cannot bring a lawsuit for federal trademark infringement until the work is officially registered with the PTO.

Q. Is trademark registration common?

A. Marks are frequently registered because businesses understand the value of protecting their marks. Consequently, a search of the federal registry is important before picking a name.

Q. What defenses are available for trademark infringement?

A. There are two affirmative defenses: 1) fair use and 2) parody. Fair use is when a descriptive mark is used in good faith for its descriptive meaning and no confusion is likely to result. Parody is another defense. A noncommercial commentary that is a parody of a trademark is sometimes protected under the First Amendment.

Q. What damages are available to a trademark owner?

A. A trademark owner can sue for an injunction to stop use of the protected mark. An owner can also get actual damages, defendant's profits, and costs of the action. Damages may be trebled if the defendant acted in bad faith. Attorneys' fees may be awarded in exceptional cases.

COPYRIGHT LAW

Basics

Q. What can't be copyrighted?

A. Naked ideas do not have protection. Let me repeat this because most people get this wrong:

IDEAS DO NOT HAVE COPYRIGHT PROTECTION!

There is no copyright protection for facts, concepts, procedures, methods or systems.

Copyright law does NOT protect titles, names, slogans, or common expressions. It does not protect short phrases.

Copyright law also does not protect information in the public domain.

Q. What can be copyrighted?

A. Copyright protection only extends to "**original works of authorship fixed in a tangible medium of expression.**"

First, the work must be **original** and *more than a short phrase*.

Second, the original work must be **fixed** (like written or recorded) **in a tangible medium**, which can be a piece of paper, in a computer, an electronic Word document, a Web page, or a CD-ROM.

Copyright protection may exist for a description, explanation or discussion of an idea or concept if it meets statutory requirements. Copyright protection exists for the *form of expression* not the subject matter itself. Naked ideas in your head are not protected!

Software can be protected by copyright law.

Q. When do rights arise?

A. Copyright protection arises automatically as soon as the work is created. "Created" means when it is fixed for the first time. For example, copyright protection arises as soon as the original software code is inputted into a computer application. Publication is not necessary.

Q. What rights does copyright law create?

A. Copyright law gives the owner of the work exclusive rights to do the following:

- 1) reproduce (copy) the work;
- 2) prepare derivative works based on the original work;
- 3) distribute copies to the public by sale;
- 4) perform the work; and
- 5) display it.

Q. Do I need a copyright notice?

A. Marking the work with a copyright notice is no longer required but it is still a good practice. (Works that were published prior to 1989 without a copyright notice may have lost all of their copyright protection.) Copyright marking gives the public notice of claimed protection.

It is a good idea to embed copyright notices into software code because removal of such notices may raise a claim under the Digital Millennium Copyright Act.

Q. What should be included in a copyright notice?

A. There are three elements to a copyright notice for written material:

- 1) the word copyright or the symbol © ;
- 2) the year of first publication of the work;
- 3) the name of the owner.

A common format is the following:

© 2009 Jill Hubbard Bowman. All rights reserved.

Q. Do I need to register my copyright?

A. Federal copyright registration is available at minimal cost and has many benefits related to litigation. Registration can be done online at www.copyright.gov.

Q. Can I register a copyright on software?

A. Yes. But this can be confusing and is often done incorrectly. The code must be an original work. The dates of publication must be correct. If you incorporate old code that was created on different dates you must specify the correct dates of creation for each section.

You must give the Copyright Office a deposit of the work/software. The amount varies depending on whether you are depositing object or source code and the length of the program. You can also black out trade secrets in some circumstances. Correctly identifying trade secrets can be a problem and forgetting to black out trade secrets will void trade secret protection.

Registration must be done correctly to get the benefits.

Q. Why should I consider registering my work?

A. Most people don't know that they can't sue for copyright infringement unless the copyrighted work is registered. Expedited copyright registration is often necessary for litigation but it's an expensive hassle.

Federal copyright protection has other very valuable benefits. If the work is registered **within three months of publication** and before infringement, an owner can receive statutory damages, legal costs, and most significantly, attorneys' fees, if the owner wins the infringement lawsuit. Statutory damages can be significant if the infringement is willful—as great as \$150,000 per work. Attorneys' fees can be hundreds of thousands of dollars.

Without early registration, in an infringement lawsuit, the owner must prove actual damages. This is hard to do and actual

damages may be very small. Attorneys' fees can be outrageous and are often prohibitive to bringing a claim in court.

Q. How long does copyright protection last?

A. For works that are recently created, copyright protection generally lasts the life of the author plus 70 years after the author's death. Works made for hire have protection for 95 years from publication or 120 years from creation, whichever is shorter.

Q. Who owns the rights to a copyright?

A. All of the exclusive rights to a copyright initially belong to the author—the person who creates the work. A person who has the idea for the work but does not create the work in a fixed medium is not an author and has no rights.

Unless specific steps are taken, the owner of the copyright is the **author**—NOT the person who paid for the creation of the work.

A common misperception is the belief, "If I paid for the work's creation, I own it or have the right to use it." This is not necessarily true even if you paid a large amount of money.

Q. How do I own a copyright?

A. There are two ways to own a copyright or have rights to use the work: 1) by creating the work; or 2) by transfer of rights.

Q. If multiple people create a work, who owns the work?

A. Ownership rights can become a muddled mess when multiple people or companies create a work. A joint work is one that has been prepared by two or more authors with the intention that the individual works be merged as interdependent parts of a larger work. Regardless of the amount of contribution, each author acquires rights in the whole work.

Q. What does "work made for hire" mean?

A. "Work made for hire" is a special legal doctrine that can transfer rights to the person who pays for the work by changing the definition of who is considered the author of the work.

A work may be a “work made for hire” if it is 1) prepared by an employee within the scope of employment; or 2) specially commissioned **and** the parties agree **in writing** that the work is a “work made for hire” and the work fits a specific legal category including a collective work or a compilation. You still need a signed writing by the author.

Q. Who owns the work done by an independent contractor?

A. Watch out for work done by an independent contractor who is not an employee and who doesn’t have a contract specifying an assignment. Without a specific written contract, an independent contractor owns the rights to the work even if they are paid to create it. Courts consider a number of factors in determining whether a person who is paid to create a work is really an employee. They look to the amount of control the alleged employer has over the work and the conduct of the employee and the formalities of employment among other factors.

The bottom line is that you should have a written agreement with your independent contractors that assigns the intellectual property rights to your company for the works you pay them to create for your company.

Q. Why should startups care about copyright ownership?

A. The owner of the work has the right to make and sell copies of the work, create additional works based on the original work, and license the work.

As a startup, you want to be able to do whatever you want with your web site: copy it, modify it, or sell it with your company. If you don’t own the copyright or have a clear license, you have a big IP mess and a much less valuable site. Do you really want to give some little web designer the right to shut down your web site?

Ownership also matters in registering a valuable work with the copyright office. If ownership is not correct and clear, the copyright registration may not be valid. Further, when registering any type of work, you never want to make a false statement to a government office, especially about authorship—it may be considered fraud.

Q. How are rights transferred?

A. Copyright authors can transfer any or all of the five rights they have in the work. A copyright owner can transfer some or all of their rights. Transfers are usually done by contract.

Q. What is a copyright assignment?

A. A full transfer of ownership rights is not valid unless it is in writing and signed by the copyright owner or its agent. An email agreement alone is not enough.

It is standard for the agreement to have a provision allowing the contract to be executed in separate parts called counterparts. Both parties don't need to sign the same document. The standard practice is that each party signs the agreement twice—creating two original signature pages. Then each party sends an original signature to the other party. A PDF of a contract with a party's written signature sent by email is sufficient for most purposes in court. A copy is generally treated as an original. Further, make sure you sign any assignment agreement too. Put these documents in your files.

Q. What are the main types of copyright licenses?

- A.** A license can transfer rights in a copyright. A license can be exclusive or nonexclusive.
- **Exclusive.** This type of license may transfer all rights in the copyright for the duration of the agreement. A business with an exclusive license has rights similar to that of the owner.
 - **Nonexclusive.** This type of license grants limited rights and can be granted to multiple parties. A nonexclusive license may be granted orally or in writing. A nonexclusive license is basically an agreement not to sue for copyright infringement. It is always a good idea, however, to have evidence of the license in some form either in writing, like in an email, or recorded in some format, like an electronic voice recording of verbal permission. A nonexclusive license may also be implied if the material is given to another with the intent that they use it.

Q. Are there any copyright issues related to ownership of web sites?

- A.** A web site has many elements that are subject to copyright law, including design elements, integrated artwork, photographs, images, logos and underlying software.

The standard in the professional design industry is that web designers assign their rights to the web site elements that they design by written contract to the entity who pays for the design.

The new owner can then grant back a revocable, non-exclusive license to the designer to use the site in the designer's advertising.

If you don't have a written contract with your web designer, you do NOT own all of the rights to your website. Exchanged emails are not enough. Depending upon the amount of content you add to the site, you may or may not even be considered a joint author. Depending upon the facts, you may or may not even have a license. In the worst-case scenario, you might pay for a site and not even have the right to use it.

The moral here is that you should ask for an IP assignment for your web design upfront. **In my opinion, you should never hire a web designer who refuses to give you an IP assignment to the works that you paid them to create.**

Q. When might you care about ownership of your web site?

- A.** You may care if you ever want to register the copyright for your website, use it for a foundation for other business ventures, get investment, or transfer the rights to the site. For example, if you have a really cool site that gets millions of hits, it could be very valuable. You would want clear ownership or licenses to all of the IP related to your site.

Moreover, your Web designer may quit or become too expensive. If you or a different designer update or change your website and you don't have the proper contract with your

original web designer you may be creating an infringing, derivative work. Ouch.

Q. What about the copyrights to the photos used on my web site?

- A.** The historical standard is that photographers retain the copyright to the photographs they take, even portraits, and they grant a non-exclusive license to use the photo. However, copyright ownership is negotiable and with digital photography the standards related to copyright ownership have been changing.

At a minimum, you should have a contract to specify that you have a license to use the photographs on your site. Contracts vary widely in what you are allowed to do with a photo. Make sure your web designer has the right to use the photos she puts on your site. I usually get an assignment or license to photos that I want to use for my businesses myself and then send them to the designers.

Q. Can logos be protected by copyright law?

- A.** If there is sufficient creativity, a logo may be protected by copyright. For example, a distinct graphic or illustration may be protected.

It's critical to own the copyright to your business logo. If you didn't create your own logo and you don't have a contract with your logo designer, you do NOT own the copyright. You may or may not have a license to use it and you don't have the right to stop others from copying it. A professional logo shop will have a clear contract assigning you the rights to the final logo.

Q. Are there any copyright issues related to the software used for my web site?

- A.** Be aware of the underlying software and related licenses to build your website. Some hosting sites give you a license to use software modules for your site platform. If you have a custom site and your designer used open source code, make sure it allows you to make a derivative work. Once again, you should have a clear contract with your designer or the developer of the software running your site and you should get them to warrant that they are not violating third party IP rights.

COPYRIGHT LAW

Liability

Q. What is considered copyright infringement?

- A.** Copyright infringement occurs when you violate one of the five exclusive rights given to a copyright owner. For example, infringement occurs when you copy written material without permission from the copyright owner and your use doesn't meet the fair use exception discussed below.

You can also infringe someone's rights when you make a different work based on another's work without permission (a derivative work). When you use someone's code without permission to create a new software program based on the original program you may be infringing the original copyright.

Q. What is required before a copyright owner can sue for infringement?

- A.** A copyright owner cannot bring a lawsuit for infringement until the owner's work is officially registered with the copyright office. Expedited filing is available but it's expensive.

Frequently, works are not registered. Many companies are lax about registering their copyrights. However, when a business relies heavily on copyright protection to make money—like book publishers, music studios and very professional photographers—a copyright registration is more likely. Software that is sold to the masses is often registered.

B. How does early copyright registration affect the amount of damages available for copyright infringement?

- A.** Without early registration, statutory damages are not available. The infringer is liable for actual damages and additional profits attributable to the infringement. Actual damages may be nominal and very hard to prove.

Without early registration, willful infringement, or a contract between the parties outlining damages, it's unlikely that

attorneys' fees will be awarded. The company bringing the suit has to pay for their own lawyers, which is a big disincentive to sue.

Q. What is "fair use"?

A. Copyright law has a provision that allows use of a copyrighted work in some circumstances including for purposes such as "criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship or research."

Courts use several basic factors to determine whether a use falls under the "fair use" exemption:

- 1) the purpose of the use and whether the use is commercial or for non-profit education;
- 2) the nature of the work;
- 3) the amount and substantiality of the portion of the work used; and
- 4) the effect of the use on the commercial market for the work.

Fair use may be a defense to a claim of infringement. This means that only a judge can decide if your use is fair.

PATENT LAW

Basics

Q. How is patent law different than other types of IP law?

A. Patent law is in an entirely different league of complexity. It is the most confusing and difficult type of IP law. Patents are difficult to prosecute and litigate well. The patent statute and the resulting interpretations by the courts are a nightmare to navigate. Consequently, patent prosecution and litigation can be very expensive.

Q. What can be patented?

A. It is possible to obtain patent protection for inventions that are new, useful and non-obvious. Each of these concepts is very complicated and based on case law. It is extremely difficult for a non-lawyer to determine whether something is really patentable.

Q. How is a patent obtained?

A. A patent may be granted after filing an application with the PTO and an examination by a patent examiner. This is usually an expensive, long and complicated process. A patent application must disclose a detailed description of how to make and use the invention.

Q. What are the requirements to be admitted to practice before the PTO?

A. To be able to represent third parties in actions with the patent office, a person must be registered as a patent agent or a patent attorney. To be able to qualify for registration, a person must have a science degree or sufficient number of college credit hours in a broad area of science including chemistry and physics. Then, the person can sit for the patent bar, which is a separate exam on the PTO's rules and procedures. It is like taking a test on a complicated phone book. After passing the exam, a person may then apply for registration. This is in part why it is expensive to have a patent lawyer prosecute and litigate patents.

Q. What rights does a patent grant?

- A.** A patent gives the owner the right to **exclude** others from making, using or selling the invention covered by the claims of the patent in the United States during the term of the patent.

Importantly, it does **not** give the patent owner the right to make, use or sell its own invention. This is a huge distinction that most people don't understand. An invention may be covered by broader more general patents that prevent it from being made, used or sold despite the grant of a patent for a more narrow invention.

Also, a patent does not give the owner the right to exclude others from making, using or selling something that was disclosed in the written description but that was not covered by the final claims of the patent.

Q. How long does patent protection last?

- A.** Generally, for a utility patent filed after June 8, 1995, patent protection lasts for twenty years from the earliest effective filing date. Many factors, however, can alter the expiration date and it can be quite complicated to calculate when a patent really expires.

PATENT LAW

Liability

Q. What qualifies as patent infringement?

A. A startup can infringe a patent if it makes, uses or sells an invention that is covered by the claims of an unexpired patent.

Q. What is claim construction?

A. Claim construction is the determination of the meaning of the claims of the patent. It is the core of patent infringement litigation. Hundreds of millions of dollars in damages have hinged on the meaning of a few key terms in a patent claim.

Judges, not juries, decide the meaning of the claims. Claim construction is generally decided after a *Markman* hearing in which both sides present their interpretations of disputed terms to the Judge.

Q. How is infringement determined?

A. Infringement is determined after claim construction on a claim by claim basis. The accused device is then examined and it is determined whether the device contains every limitation in the claim.

Q. What damages are available in a patent case?

A. Damages are compensatory and are not less than a reasonable royalty. In some cases, damages may be based on lost profits due to the infringement. A judge can also grant an injunction preventing the infringer from making, using or selling the infringing product. Attorneys' fees and costs can also be awarded in exceptional cases.

CONCLUSION

Intellectual property law is extremely complex in the details.

This e-book merely gave general information about some basic issues and terminology to help entrepreneurs distinguish between different types of IP law and understand some of the common terms. It was like the tiny tip of the iceberg.

Understanding the basics of IP law, however, can help entrepreneurs avoid some of the most common blunders and prevent some of the worst nightmares that some unfortunate startups face. If an entrepreneur wants the startup to grow, it's important to know these issues before potential investors discover them or a partner walks out with the core IP. Knowledge really can be power.

My blog, IPLawforStartups.com, will discuss the contours of the IP law iceberg in more detail and give educational information about how to navigate around it. The blog will also discuss how entrepreneurs can use IP law to the best advantage when starting a company.

This e-book is intended for general information only and it should not be considered as legal advice or legal opinion on any specific facts or circumstances. You should consult a lawyer for any specific legal questions. This article should not be considered a solicitation for legal services. It is for educational purposes only.