

Chapter 3

Intellectual Property Protection

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3.1 Introduction

Once a property owner has identified the property to be merchandised, determined that it is the true owner of the property and there are no potentially conflicting rights, and confirmed that a licensee's use will not infringe the rights of any other party, the next step is to take the necessary measures to protect it BEFORE actually commencing the merchandising program. This process of securing protection for the property is vitally important since most licensees will insist that the licensor has some form of intellectual property protection in place before agreeing to sign a license agreement that obligates them to pay the licensor money for the right to use the property. At a minimum, if the licensee is "trusting", they will require that the licensor obtain such protection as soon as practical. The licensee is not being unreasonable in requiring the property owner to perfect its rights in the property. Once the licensee actually commences the sale of licensed products for which a royalty will be owed, they are going to want sound assurance that their competitors cannot use the property and market the same or similar products on a royalty-free basis, which would permit them to undercut the licensee by offering theirs at a lower cost.

3.2 Developing a Protection Plan

While most property owners and licensees agree that the licensed property or properties must be protected against unauthorized use, there is often a great deal of disagreement over the best and most practical way to protect the property. This is particularly true with respect to merchandising properties, which can often be protected in a number of different ways depending upon the property, e.g., as a trademark, copyright, right of publicity for celebrity names and even potentially under the patent laws. In the end, the property owner, working with their intellectual property counsel, will look to develop a patchwork theory of protection to protect individual elements of their property in as cost effective a manner as possible.

The three statutory forms of intellectual property protection include: patents, copyrights, and trademarks. Additionally, many states in the United States (although few other countries) recognize the right of publicity, which asserts that a celebrity has a protectable right in their name, image and likeness against unauthorized commercial uses.

Generally speaking, utility patents are intended to protect functional devices and are rarely applicable to merchandising properties, although some of the licensed products themselves may be patented. Design patents, which are used to protect the ornamental appearance of articles of manufacture, are also not commonly used to protect merchandising properties.

Most merchandising properties are protected as trademarks and/or copyrights. A trademark may constitute any word, name, design, logo or shape that functions as an indicator of the source, origin or sponsorship of a product or service while a copyright protects an original work of authorship that is fixed in a tangible medium of expression such as, for example, a literary work, a pictorial or graphic design, a motion picture or a sound recording. To illustrate this, one would typically seek to copyright the design or image of the MICKEY MOUSE character as a graphic design. When that image is, however, applied to a product such as a coffee mug, that same image can be protected as a trademark for coffee mugs since it serves as an indicator that Disney, as the owner of the character, "sponsored" or "licensed" that product.

It should be appreciated that trademarks and copyrights have specific advantages...and disadvantages. For example, copyright protection is immediate—rights are created upon the

creation of the work. Moreover, registration of that copyright is relatively easy and inexpensive and the registration affords the owner some degree of international protection.

Trademark protection is similarly immediate—you acquire rights when you start actually using the trademark on product that is sold or offered for sale in commerce. The registration process is, however, more complicated, more expensive and territorial in scope, i.e., you obtain rights only in the country where you seek protection or actually use the mark.

Perhaps the most significant difference between the two is the length of protection that each one offers. Copyright rights are valid for only a finite period of time while trademark rights can continue for so long as the mark is actually being used in commerce by either the property owner or its licensee. That is the reason why owners of some of the more classic properties like MICKEY MOUSE and PETER RABBIT are seeking protection for their properties under both forms. This way, when the copyright in the graphic designs expire, they still retain trademark rights to protect their properties for the products on which they are being used.

There is also an overlap between trademark rights, copyright rights and the right of publicity when they relate to celebrity rights. Celebrities typically rely on all three forms of protection to protect their rights-- the trademark laws to protect their name for use on product; the right of publicity laws to protect their name and image; and the copyright laws to protect a specific image or representation of the celebrity that may form the basis of a licensing program.

3.3 Trademark Protection

Trademark protection extends to any word, name, symbol, or device, or any combination thereof, that is used to identify and distinguish an individual's goods from those manufactured or sold by others and to indicate the source of such goods. Service marks are trademarks that are used in association with services rather than products. For example, when the mark McDONALD'S® appears on the outside of the McDonald's® chain of restaurants, it is functioning as a service mark identifying the restaurant services being offered by the restaurant. When, however, it appears on hamburger packages, it is being used as a trademark.

Registration of a trademark with the Patent & Trademark Office is preferable because there are certain procedural and substantive advantages in having a registered trademark, not least, the right to sue in federal court for trademark infringement. Other advantages of registering a trademark include: establishing constructive notice of the registrant's claim of ownership; providing evidence of the validity of the registrant's ownership of the mark and his exclusive right to use it; it can be recorded with U.S. Customs Service to stop infringing and counterfeit imports at the border; and it can become incontestable after five years. Moreover, licensees are usually less reluctant to agree to a license if the mark has been registered as opposed to a situation where the property owner is simply relying on common law rights.

The requirements for obtaining a federal registration are straightforward. For starters, the mark seeking to be registered must be distinctive, i.e., it must distinguish or be capable of distinguishing the owner's products or services over that of another. What that means is that the trademark cannot be merely descriptive of the goods or services for which registration is being sought nor can it be generic of the product or service. For example, the mark WINNIE THE POOH would be registrable for a coffee mug since it is neither the name of the product nor does it describe the product. If one sought to register the mark BLUE MUG for a coffee mug that was blue, it would be considered descriptive of the product and, as such, not registrable.

The applicant for a trademark also has to be the first to have used that mark for the subject product or service and not be aware of any other use of the mark that might be confusingly similar to their own mark and use. Thus, an application by XYZ Company to register WINNIE THE POOH for a Plush Bear based on very recent use would undoubtedly be rejected based on Disney's earlier use and registrations.

Trademark applications can be filed with the USPTO in one of two ways: (a) as a use based application claiming the actual use of the trademark in interstate commerce; or (b) as an intent-to-use application, meaning that actual use had not yet started but the applicant had a *bona fide* intention to actually use the mark. In a use-based application, the applicant must state the date the mark was first used on the goods in both commerce and interstate commerce.

In both types of application, the applicant must identify the mark to be registered and the goods or services on which the mark has or will be used. The PTO divides all forms of goods and services into 45 different classes and the applicant must select one or more classes for which registration is sought based on the type of goods or services identified. Identification of the proper class (es) is important since the PTO filing fees are based on the number of classes for which registration is being sought.

Trademark applications can be filed either by a paper filing or an electronic filing. The PTO filing fee for a trademark application as of 2010 is \$375 per class if filed by paper or \$325 per class if filed electronically. Both types of applications are prosecuted by the PTO in the same manner.

In merchandising, every property owner must decide how many classes to include in the initial application. Since the PTO filing costs are on a per class basis, the more classes included in the application, the higher the filing fee.

Typically, the property owner makes this decision in combination with its licensing director or consultant, determining where licensing activity is most likely to occur and then selects those classes.

Most trademark applications for merchandising properties are filed on an intent-to-use basis since they are typically filed well in advance of the commencement of the licensing program and, thus, before actual use has been effected for the prospective licensed products. Actual use of the mark on product must, however, be effected before any actual trademark registration can issue, but the owner may have as much as four years in which to effect use.

A word of caution here with respect to the filing of intent to use applications---the mere filing of such an application alone doesn't give the owner any enforceable rights in the trademark until actual use of that mark for goods in that product class is effected. When use is effected, however, the property owner gets the benefit of the filing date of the original application. That means that the property owner cannot sue an infringer for trademark infringement until it (or its licensee) commences use of the mark on the products.

As noted, there are 45 different classes of goods and service in which one can seek to register a mark. For merchandising purposes, the most common classes are:

- Class 9—Electrical and Scientific Apparatus (DVD's and video)
- Class 14—Jewelry
- Class 16—Paper Goods and Printed Matter
- Class 18—Leather Goods

Class 20—Furniture and Articles Not Otherwise Classified
Class 21—Housewares and Glass
Class 25—Clothing
Class 28—Toys and Sporting Goods

Assuming the trademark application meets the necessary requirements; it will be given a filing date and assigned to a PTO Trademark Attorney for examination. The Trademark Attorney will examine it for form and conduct a search to determine that the mark is not confusingly similar to any other mark.

At some point, the application will either be allowed or rejected. Rejections can be appealed to an administrative board within the PTO. If it is allowed, the mark will be published for opposition. The most common basis for opposing the registration of a mark is that it is confusingly similar to another mark.

Assuming that no one opposes registration of the mark, the procedure differs between use based applications and those filed on an intent to use. Unopposed use-based applications proceed to registration while intent to use applications is held pending the filing by the owner of a Statement of Use. The applicant has six months from the issuance of a “Notice of Allowance” by the PTO to file such a Statement of Use. That period can be extended, upon the filing of a request and the payment of a fee, for up to two and one-half years.

Trademark registrations are granted for a term of ten years from the date of registration and may be renewed for an unlimited number of additional ten- year terms upon a showing of continued use. Between the fifth and sixth year of the initial term of a trademark registration, there is a requirement for the registrant to demonstrate that the mark is still in use. Failure to demonstrate use at this time will result in the cancellation of the registration.

Once a registration is cancelled (and assuming that use has ceased by the registrant), anyone may adopt the cancelled mark and commence their own use of the mark. There are a number of individuals who regularly scan the list of cancelled registrations with the intent of adopting these cancelled marks for their own use. **One word of caution**—the fact that a trademark registration may have been cancelled doesn’t necessarily mean that the owner of that mark has lost its rights in that mark. Some registrations are inadvertently cancelled although use of the mark continues. In that situation, the original owner can simply re-apply to register that mark with the same claimed date of first use as in the originally cancelled registration.

The TM designation is used to identify a property that is considered a trademark by the owner but is not federally registered. Similarly, the designation SM indicates that the word, symbol, or logo is considered by its owner to be a service mark. There is no particular legal necessity for inclusion of the TM designation with the mark other than to indicate to the public at large that the user considers the particular mark to be his mark.

The ® symbol is used to designate a federally registered trademark. Some trademark owners prefer to use the designations “Registered in the U.S. Patent and Trademark Office” or “Reg. U.S. Pat. & TM Off.” This is a matter of choice, although most copywriters and advertising people prefer the ® symbol simply because it’s easier to place. The tag line “Registered Trademark” is not a statutory notice and may actually be misleading because it does not indicate where the mark was registered.

This is probably a good time to discuss good “trademark practice” for both the property owner and its licensees. The following simple guidelines should always be followed:

- Always use the trademark as an adjective to describe the product for which it is being used, e.g., a STAR WARS toy;
- Always capitalize the trademark relative to the type of product for which it is being used, e.g., a HARRY POTTER book;
- Never use the trademark as a noun or a verb or in the plural, e.g., “I want to Xerox the drawing”; and
- Always follow each usage of the property with an appropriate trademark notice, e.g., BATMAN™ costume.

3.4 Copyright Protection

Copyright protection is provided for original works of authorship fixed in a tangible medium of expression. The various categories of copyrightable works include the following:

- literary works
- musical works, including any accompanying words
- dramatic works, including any accompanying music, pantomimes and choreographic works
- pictorial, graphic, and sculptural works
- motion pictures and other audiovisual works
- sound recordings

The actual term of a copyright varies, depending upon the type of work, when it was created and whether it was published or not. In most instances, the term is the life of the author plus 70 years. For works of corporate authorship, it is typically 95 years from publication or 120 years from creation, whichever first occurs. It should be appreciated that these terms were recently extended.

Ownership rights to a copyright arise upon the creation of an original work and the affixation of the requisite statutory copyright notice to that work, although after the United States became a signatory to the Berne Convention in 1989, the copyright notice is no longer an absolute requirement for protection. Nonetheless, the application of a copyright notice and the registration of the copyright with the Copyright Office offer certain procedural and substantive benefits and, as such, are recommended. For example, a copyright registration is required in order to bring an action for copyright infringement and, if successful, an entitlement to statutory damages against an infringer.

To be eligible for copyright protection, the material must be the original work of the author and it must fall within one or more of the protectable categories listed above. There are no implied/subjective criteria of artistic taste, aesthetic value, or intrinsic quality considered in obtaining a copyright. Furthermore, although the actual amount of originality required under the copyright laws is somewhat unclear, it is accepted that it is less than the novelty requirement for patent protection. One can seek copyright protection as a “derivative work”, i.e., deriving from an earlier copyrighted work. The key in determining whether a separate copyright will be

recognized in a derivative work is the amount of creativity in the work added to the original work.

As noted above, the application of a copyright notice is no longer a requisite for registration, although highly recommended. The three elements of the copyright notice are:

- the symbol©, the word “Copyright,” or the abbreviation “Copr.”;
- the year of first publication of the work; and
- the name of the owner of the copyright.

Thus, a typical copyright notice would be © LIMA. 2010. If the copyrighted goods are sound recordings, a circled P is used rather than the ©. The legend “All Rights Reserved” should follow the standard copyright notice, particularly if distribution is contemplated in South America. The additional legend gives protection of copyright is found not to apply.

The notice must be affixed to the copies in such a manner and location as to give reasonable notice of the claim of copyright and must be permanently legible to an ordinary user of the work under normal conditions of use.

Registering a copyright with the Copyright Office is a relatively simple and inexpensive process, requiring only the submission of the application for copyright registration (obtainable at www.copyright.gov), deposit of the work for which copyright protection is claimed, and the payment of the statutory fee of \$35 for an on-line application and \$50 for a paper application.

Copyright registration affords the property owner the exclusive right to:

- (1) reproduce the copyrighted work in copies or phonorecords;
- (2) prepare derivative works based on the copyrighted work;
- (3) distribute copies or phonorecords of the copyrighted work by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) publicly perform or display the copyrighted work, including the individual images of a motion picture or other audiovisual work.
- (6) publicly perform the copyrighted work by means of digital audio transmission sound recordings.

The exclusive rights afforded to the owner of a registered copyright, however, are subject to various limitations, qualifications, and exemptions. Statutory limitations include the right of libraries and archives to reproduce copyrighted works and the granting of compulsory licenses of copyrighted works to cable systems, for making and distributing phonorecords, for use in jukeboxes, and for noncommercial broadcasting.

A significant limitation on copyright protection is the “fair use” doctrine, which permits one to use a copyrighted work without the owner’s consent for certain enumerated purposes, e.g., criticism, comment, news reporting, teaching, scholarship, or research. The scope of permissible fair use is even greater when the copyrighted work is primarily factual and informational rather than creative. The doctrine is liberally applied when accurate reporting requires use of verbatim quotations.

Unfortunately, the standards for the application of the fair use doctrine have been, and continue to be, much disputed, and there is no judicial definition of what constitutes “fair use.” However, the Copyright Act does set forth the following factors to consider as to whether the use made of a work in any particular case is fair use:

- (1) the purpose and character of the use, including whether such use is of commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

In order to prove infringement, a copyright holder must establish ownership of a valid copyright and copying by the defendant. Copying may be proved circumstantially by access to the copyrighted work and substantial similarities between the protected work and the allegedly infringing work. This circumstantial proof establishes only a presumption of copying, which may be rebutted by the defendant with evidence of independent creation. It is difficult to rebut an inference of copying based on access and similarity, but even the absence of such evidence is not determinative of liability when the two works are so substantially similar as to raise the inference of copying.

It should be appreciated that unlike patents, independent creation is a valid defense to such a charge of copyright infringement. As such, copyrights do not confer an absolute monopoly over expression. If it can be shown that two similar works were produced wholly independent of each other, the author of the first work published has no right to stop the publication or use of the second independently created original work. Therefore, it is possible to have a plurality of valid copyrights all directed to the same or substantially similar works. This is contrary to the patent laws, under which the inventor is charged with full knowledge of all prior art. The higher standard is justified by the more extensive protection afforded to patents. Copyright protects only from copying; patent confers an absolute monopoly.

Works in the public domain are available for use and reproduction by anyone although copyrights can be used to protect a unique expression of such a work that has entered the public domain. In such instances, however, the scope of protection is limited to those features that are new.