

AN INTRODUCTION TO
INTELLECTUAL PROPERTY LAW
IN HAWAII

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Preface

The following materials are drawn from a number of sources written by the authors, including some materials previously published. Materials concerning the Internet were previously published in “The Law of the Internet in Hawaii” in 2002 and “Copyright Law for the Digital Age in Hawaii” in 2000, both National Business Institute publications. Materials concerning trademark were previously published in “Understanding Basic Trademark and Unfair Competition Law in Hawaii and Beyond,” in 2001 by Lorman Educational Services. Materials concerning copyrights were previously published in “Hawaii Copyright Law Boot Camp” early last year by National Business Institute.

Some of the previous publications have attempted to distinguish which author wrote what, but that has become too cumbersome to continue. Accordingly, we each accept responsibility for the inevitable errors that you may find.

The authors would welcome any criticism or comments regarding the materials.

I. INTRODUCTION TO INTELLECTUAL PROPERTY LAW

In law, “property” does not refer to a particular material thing, but rather to the rights and interests in the thing. Those rights and interests can apply to an object, to real estate, or even to ideas and creations. The latter are often referred to as “intellectual property.”

“Property” is defined in Black's Law Dictionary 1382 (4th ed. (Rev.) 1968) as follows:

(T)hat which belongs exclusively to one: The term is said to extend to every species of valuable right and interest. . . . More specifically, ownership; the unrestricted and exclusive right to a thing; the right to dispose of a thing in every legal way, to possess it, to use it, and to exclude every one else from interfering with it. The exclusive right of possessing, enjoying, and disposing of a thing. . . . The highest right a man can have to anything. . . .

Property may also be thought of as the right to exclude others. You may have an unrestricted right to use a public park without owning it; no single individual has a “property” right in the public park. You may use it, but you may not exclude others from it. But you have the exclusive right to use your backyard – you do have the right to exclude others from your backyard. If necessary, the state will send officers to assist you in enforcing that right. That is, in a significant sense, the key to property: it is the right to exclude others.

Property rights in ideas can be troubling. How do you exclude someone else from using your idea? Thomas Jefferson thought that a person could exclusively possess an idea only as long as the person kept the idea a secret. Once another person hears the idea, they cannot be rid of it. Jefferson wrote:

If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea,

which an individual may exclusively possess as long as he keeps it to himself; but the moment it is divulged, it forces itself into the possession of every one, and the receiver cannot dispossess himself of it. Its peculiar character, too, is that no one possesses the less, because every other possesses the whole of it. He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me. That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature, when she made them, like fire, expansible over all space, without lessening their density in any point, and like the air in which we breathe, move, and have our physical being, incapable of confinement or exclusive appropriation.

Graham v. John Deere Co. of Kansas City, 383 U.S. 1, 86 S.Ct. 684 at n. 2 (1966).

Jefferson lost this debate, however. In the Constitution, a variety of federal and state statutes, and the common law, inventions and works of authorship are protected and their owners have in them certain property rights. In essence, inventors and authors are, in certain circumstances, given exclusive rights in their creations. They are granted a form of government monopoly.

There are two basic theoretical justifications for this government monopoly. One is a natural rights, or natural law, theory. This goes back to the Lockean view that property rights arise from the labor one contributes to create the property. If I build an oak table, it is mine; similarly, if I build a data table, I may believe it to be mine. The second justification for intellectual property rights is the economic incentive theory. By rewarding useful inventions and creations, the welfare of the community is increased. For this reason, a limited monopoly should be granted to encourage invention and the useful arts. The later theory is probably the dominant one today.

Intellectual property generally includes copyrights, trademarks, trade secrets, patents, and rights of privacy and publicity. Each of these areas of law has its own

distinctive characteristics, although generally finding its conceptual basis in natural law or economic incentive theory. Each of these topics is discussed in some detail below.

II. COPYRIGHTS

A. Copyright

1. Copyright Basics

a. The Constitutional and Statutory Scheme. The Constitution provides that "Congress shall have the power . . . [t]o promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."¹ The idea here is to stimulate the production and distribution of creative works. Under this authority, Congress enacted the Copyright Act of 1976 which, in essence, provides a form of legal monopoly granted to authors for "works of authorship."² The law is codified in 17 U.S.C. §§ 1 *et seq.* (effective January 1, 1978).

b. Scope of Protection. Original works of authorship that are "fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device" are protected under U.S. copyright law.³ The broad scope of this definition means that virtually every form of written, graphic, pictorial or sculptural work is potentially eligible for copyright protection. Such works include literary works; musical works, including any accompanying words; dramatic works, including any accompanying music; pantomimes and choreographic works; motion pictures and other

¹ U.S. Const. Art. § 8.

² Section 4 of the Copyright Act of 1909 provided that: "The works for which copyright maybe secured under this title shall include all writings of an author. " The change under the 1976 Act was intended to "avoid exhausting the constitutional power of Congress to legislate in this field and thereby allow room for continual growth." See H.R. Rep. No. 94-1476, 94th Cong. 2d Sess., 51 (September 3, 1976).

³ 17 U.S.C. § 102.

audio visual works; sound recordings; and architectural works, both the structures themselves and the drawings upon which they are based.

Copyright comes into existence when an original work is authored and fixed in a tangible media. Nothing more is required. As the U.S. Copyright Office explains:

Copyright is secured *automatically* when the work is created, and a work is "created" when it is fixed in a copy or phonorecord for the first time. "Copies" are material objects from which a work can be read or visually perceived either directly or with the aid of a machine or device, such as books, manuscripts, sheet music, film, videotape, or microfilm.

U.S. Copyright Office, Circular 1 Copyright Basics (Rev. 2002).

To qualify for copyright protection, expression must be original to the author. To be original, a work must (1) be independently created by the author and (2) possess at least some minimal degree of creativity.⁴ The minimal creativity requirement means that the work must contain "some creative spark, no matter how crude, humble or obvious it might be."⁵ The work does not need to be novel, but it cannot be copied⁶ and the work must contain "the fruits of intellectual labor."⁷ Under Feist, even public domain information can be protected by copyright if it is presented in an original creative manner.⁸

⁴ See Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340 (1991).

⁵ Feist, *supra*, 499 U.S. at 369.

⁶ Id.

⁷ Id.

⁸ In Feist, the Supreme Court held that a publishing company that copied less than 1,500 name, address, and phone number entries from the white pages of a telephone book was not liable for copyright infringement. While the court acknowledged that the telephone book as a whole was copyrightable, it held that the individual entries and the particular compilation of entries at issue were not copyrightable. This case confirms

A work is considered fixed when "its embodiment in a copy or phonorecord . . . is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration."⁹ Like the concept of authorship, the concept of fixation has been broadly construed. Storing a computer program in memory can be sufficient.

Designs for a useful article, however, are only protected by copyright if the design is separable from the "utilitarian" or functional aspects of the article.¹⁰ Except to this limited extent, industrial designs are not protected under the copyright law.¹¹ Many industrial designs are, however, protected by patent law, and to some extent, may be protected by principles of trademark law.¹²

Subject to a number of statutory exceptions and qualifications discussed below, including the all important limitations of the "fair use" doctrine set forth in 17 U.S.C. § 107, ownership of a copyright gives the owner the exclusive right to do and to authorize the following:

(1) to **reproduce** the copyrighted work in copies or phonorecords¹³;

that while the facts underlying a compilation cannot be protected, an author can claim protection of the manner in which the facts are presented.

⁹ 17 U.S.C. § 101.

¹⁰ See 17 U.S.C. § 101 (definition of "pictorial, graphic, and sculptural works"). See also, e.g., Brandir International, Inc. v. Cascade Pacific Lumber Co., 834 F.2d 1142, 1143, 1147-1148 (2d Cir. 1987); Carol Barnhart, Inc. v. Economy Cover Corp., 773 F.2d 411, 412, 418 (2d Cir. 1985).

¹¹ See H.R. Rep. No. 1476, 94th Cong. 2d Sess. 54-55 (Sept. 3, 1976).

¹² See Jay Dratler, Jr., Trademark Protection of Industrial Designs, 1988 U.Ill.L.Rev. 887 (1989).

¹³ A phonorecord is basically any media in which sound is fixed and from which the sound can be perceived, or played back, excluding audiovisual recordings. Hence vinyl, audio cassettes, and music CDs are all within the scope of phonorecords. 17 U.S.C. § 101.

(2) to **distribute** copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(3) to **perform** the copyrighted work publicly (for literary, musical, dramatic, and choreographic works, pantomimes, motion pictures and other audiovisual works);

(4) to **display** the copyrighted work publicly (for literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual works);
and

(5) to **prepare derivative works** based on the copyrighted work.

These represent the “bundle of rights” the owner of a copyright exploit her or himself and can exclude others from using.

The copyright owner also can grant the right to someone else to use his or her copyrighted material in all or only some of these ways. This ability to split this “bundle of rights” and license or sell only some of its parts creates important opportunities for the copyright owner, but makes the subject of copyright law more complicated. If the transfer of rights is on an exclusive basis, it must be in writing. If the transfer of a right is on a nonexclusive basis, it does not require written agreement.

The exclusive rights of reproduction and distribution are generally easy to understand. The principal area of confusion with regard to these rights is that some people mistakenly believe that if they are not charging a fee, they can reproduce or distribute copyrighted material legally. That is not correct.

Performance and display rights can be more difficult to understand. The terms are used in copyright law in a way that is broader than their day-to-day meaning, because they include performance "by any means of a device or process." Thus, for example, broadcasting a live performance of a copyrighted work is itself a performance of that work. Congress, in its legislative report about the Copyright Act, explained:

[P]ublic performance and public display cover not only the initial rendition or showing, but also any further act by which that rendition or showing is transmitted or communicated to the public. Thus, for example: a singer is performing when he or she sings a song; a broadcasting network is performing when it transmits his or her performance (whether simultaneously, or from records) . . .

H.Rep.No. 1476, 94th Cong. 2nd Sess. 63 (1976), reprinted in U.S. Code Cong. & Admin. News 1976, pp. 5659, 5676. Closed circuit hotel room broadcasts, and other remote transmissions, as for example the cable TV video on demand service, similarly qualify as public display and performances within the meaning of the copyright statute.

Copyright protection is not limited to exact imitations or copies. A copyright owner also has exclusive rights to create derivative works. The Copyright Act defines a derivative work as "a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, condensation, or any other form in which a work may be recast, transformed, or adapted."¹⁴

The concept of a derivative work can be tricky. If someone translates an English novel into French, that is clearly a derivative work. If the novel is made into a screenplay of the same name, that too is probably a derivative work. However because copyright protects the expression of an idea, not the idea itself, if someone produces a screenplay of a different name which borrows important parts of the novel, whether this screenplay constitutes an infringing derivative work will depend upon how much and what aspects of the novel is borrowed and in what manner the borrowed aspects are expressed, among other things.

¹⁴ 17 U.S.C. § 101.

The copyright is distinct from the copy itself. If you buy a book or phonorecord you do not acquire the copyright in that work. For the same reason, if you buy a painting or a photograph, you do not acquire the copyright in that work simply by owning a material object that embodies a protected work. So, for example, you may own the print of the family portrait you sit for and purchase from the department store photographer franchise, but you probably do not own the copyright which inheres in that photo and so you should not be making copies of the photo at Kinkos, on Long's color photo reproduction machine, or using your PC scanner and color printer.

c. **Limitations on Exclusive Rights.** As noted above, there are numerous exceptions to the exclusive rights of copyright owners. Materials that are in the public domain are one example. Older works, such as the Bible, Shakespeare, and many other literary classics, are often in the public domain due to their age. Some works are deliberately donated to the public domain. Further, works by the United States government are, by law, not eligible for copyright. Some things do not qualify as "works of authorship" and thus cannot be copyrighted: titles, names, short phrases, slogans, symbols, listings of ingredients, facts, research, and historical events, and so forth. Also, ideas are not protected by copyright. Finally, works that have not been fixed in a tangible form of expression cannot be copyrighted. For example, a live broadcast of a dance that is not videotaped or otherwise fixed in a tangible medium could not be copyrighted.

(1) **Idea/Expression Dichotomy**. Copyright protects the expression of a work, not the ideas or concepts contained within the work.¹⁵ Section 102(b) of the Copyright Act provides that:

In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

See also Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340 (1991); Apple Computer, Inc. v. Microsoft Corp., 35 F.3d 1435 (9th Cir. 1994).

If a particular idea can be expressed in only one manner, the expression and idea are said to have merged. In such a case, the expression will only be protected against nearly identical copying.¹⁶ So, for example, if you were to copyright a recipe for a chocolate cake, others could not copy your recipe word for word, but you would hold no monopoly on the idea of your chocolate cake, and others could bake as many as they liked.

While it is often difficult to distinguish expression from ideas, the courts have insisted that it must be done.¹⁷ Similarities which are derived from the use of common ideas cannot be protected, otherwise, the first to come up with an idea will corner the market regarding the idea.¹⁸

¹⁵ The idea/expression dichotomy was first articulated in the seminal case, Baker v. Selden, 101 U.S. 99, 25 L.Ed. 841 (1880).

¹⁶ Apple Computer, Inc. v. Microsoft, 35 F.2d 1435, 1444 (9th Cir. 1994).

¹⁷ Apple v. Microsoft, *supra*, at 1443.

¹⁸ Herbert Rosenthal Jewelry Corp. v. Kalpakian, 446 F.2d 738, 742 (9th Cir. 1971).

(2) **Fair Use**. Originally a creature of the common law, the fair use doctrine has been codified as part of the copyright statute. Section 107 of the Copyright Act provides that:

[T]he fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship or research, is not an infringement of copyright.

The statute provides four factors to be considered in determining if the fair use exception applies: 1) the purpose and character of the use including whether such use is of a 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.¹⁹

The fair use doctrine is a defense to copyright infringement and permits the courts to avoid a rigid application of the copyright statute when, on occasion, it would stifle the very creativity which the law is designed to foster.²⁰

(3) **Independent Creation**. The independent creation doctrine provides a complete defense to copyright infringement. The reason for this rule is that the copyright law is intended to only protect against copying, not against an independent parallel creation. In Mazer v. Stein, 347 U.S. 201, 218 (1954), the Supreme Court noted that "absent copying there can be no infringement of copyright."

¹⁹ 17 U.S.C. § 107(1)(4).

²⁰ See Dr. Seuss Enters., L.P. v. Penguin Books, U.S.A., Inc., 109 F.3d 1394 (9th Cir. 1997).

(4) **The First Sale Doctrine.** The "first sale" doctrine, codified at 17 U.S.C. § 109, permits the lawful owner of a copy of a copyrighted work to sell or otherwise dispose of that copy without the authority of the copyright owner. A 1984 amendment prohibits the lending of sound recordings for "direct or indirect commercial advantage." (See 17 U.S.C. § 109(b)). The Computer Software Rentals Amendments Act of 1990, codified in part in 17 U.S.C. § 109, extends this prohibition to computer programs.

(5) **Additional Limitations on Exclusive Rights.**

There are a host of other limitations on the exclusive rights of copyright holders set forth in the Copyright Act. These include 17 U.S.C. §§ 108 (reproduction by libraries and archives); 17 U.S.C. § 110 (performance and display in certain educational nonprofit and nonfee activities); 17 U.S.C. § 111 (secondary transmission of broadcast works by cable television systems and others); 17 U.S.C. § 112 (ephemeral recordings by transmitting organizations), 17 U.S.C. § 113 (limitations on exclusive rights with respect to useful articles depicted in copyrighted works and pictures of useful articles containing copyright works); 17 U.S.C. § 114 (sound recordings); 17 U.S.C. § 115 (compulsory licensing of phonorecords of nondramatic musical works); 17 U.S.C. §§ 116 & 116A (jukeboxes); 17 U.S.C. § 117 (rights to transfer, use, adapt and make backup copies of computer programs); 17 U.S.C. § 118 (performances and displays of published nondramatic musical works and published pictorial, graphic and sculptural works in the course of transmission by noncommercial educational broadcast stations, and certain related transmission and reproduction); and 17 U.S.C. § 119 (certain satellite retransmissions).

2. Copyright Ownership and the Concept of “Authorship”

Copyright protection “is an incident of the process of authorship.” The copyright immediately becomes the property of the author who created it. Only the author – or those deriving their rights through the author – can rightfully claim copyright. The concept of authorship is often clear, but it can be confusing in a work for hire, a joint work, or a collective work.

Section 201(a) of the Copyright Act provides that: "Copyright in a work protected under this title vests initially in the author or authors of the work." For purposes of copyright law, the word "author" is a legal term of art whose interpretation can vary depending upon the circumstances involved. For example, the "author" of a work will vary depending upon whether the work is: 1) created by an individual; 2) a work made for hire; 3) a joint work; or 4) a collective work.

a. Individual Authorship. If a work is conceived, created and reduced or fixed into a tangible form of expression by an individual author who is not acting: 1) within the scope of his employment by another; or 2) as a commissioned artist with respect to nine specific categories of works, he/she will be deemed the "author" of the work for copyright purposes. His/Her ownership of the copyright in that work vests automatically in him/her as author when he/she creates the work and first fixes the work in a tangible form.

b. Works Made for Hire. If a work is a "work made for hire," then for purposes of the copyright law, the employer or person who specially ordered or commissioned the work (if certain other requirements are met) is treated as the author of the work and owns the copyright in the work and is entitled to register the

copyright in his/her name.²¹ Section 101 of the Copyright Act sets forth a two-part definition of a "work made for hire." Under this provision of law, a "work made for hire" can be either:

- (1) a work prepared by an employee within the scope of his or her employment; or
- (2) a work specially ordered or commissioned for use:
[a] as a contribution to a collective work, [b] as a part of a motion picture or other audiovisual work, [c] as a translation, [d] as a supplementary work, [e] as a compilation, [f] as an instructional text, [g] as a test, [h] as answer material for a test, or [i] as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.

Whether a work falls within the first category depends upon whether the author is acting as an employee or as an independent contractor under the common law of agency.²²

In determining whether a hired party is an "employee" under the general common law of agency, it is the hiring party's right to control the manner and means by which the product is accomplished that is the major consideration. Various common law factors are relevant to this "control" issue. They include: 1) the skill required by the party rendering the services; 2) the source of the instrumentalities and tools used by the person rendering the services; 3) the location where the work is performed; 4) the duration of the relationship between the parties; 5) whether the hiring party has the right to assign additional projects to the hired party; 6) the extent of the hired party's discretion over when and how long to work; 7) the method of payment; 8) the hired party's role in hiring

²¹ 17 U.S.C. § 201(b).

²² See Community for Creative Non-Violence v. Reid, 490 U.S. 730, 738 (1989).

and paying assistants; 9) whether the work is part of the regular business of the hiring party; 10) whether the hiring party is, in fact, in "business"; 11) the provision of any employee benefits; and 12) the tax treatment of the hired party.²³

In Reid, the court found that an artist was not an employee but rather was an independent contractor entitled to all intellectual property rights in the disputed work. In analyzing the artist's status as an independent contractor, the court found that: 1) the artist was a sculptor -- a skilled occupation; 2) the artist supplied his own tools; 3) he worked in his own studio; 4) the artist was retained for less than two months -- a relatively short period of time; 5) during and after this time, the alleged "employer" had no right to assign additional projects to the artist; 6) apart from the deadline for completing the subject sculpture, the artist had absolute freedom to decide when and how long to work; 7) the alleged "employer" paid the artist \$15,000, a sum dependent on "completion of a specific job, a method by which independent contractors are often compensated"; 8) the court also noted that the artist had total discretion in hiring and paying assistants; 9) the creation of sculptures was "hardly a regular business" for the alleged "employer"; 10) the alleged "employer" did not provide any employee benefits; and finally, 11) no payroll or social security taxes, contributions to unemployment insurance or workers' compensation funds were paid by the hiring party.

As a result of these rules, independent contractors such as consultants, designers, etc. own the copyrights in the works they produce unless there is a written agreement to the contrary which explicitly states the copyright is transferred. Classifying a work as "made for hire" is significant because such a classification not only determines the initial

²³ Reid, supra, at 490 U.S. 739.

ownership of the copyright, it also determines the copyright's duration, the owner's renewal rights, statutory termination rights and the right to import certain goods bearing the copyright.

c. **Joint Works.** Section 101 of the Copyright Act defines a "joint work" as a work "prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole." The authors of a joint work are co-owners of the copyright in the work notwithstanding the fact that their individual contributions to the work may not be equal in amount or kind.²⁴ An example might be a treatise written by multiple authors in collaboration. Significantly, each author of a joint work is free, to some extent, to exploit the copyright in the joint work without the prior approval of any other author. For example, a joint owner is entitled to grant a non-exclusive license in the entire work without the consent of the other joint owners. A transfer of copyright, however, presents a different situation. In the absence of an agreement to the contrary, one joint owner may always transfer his interest in the joint work to a third party, subject only to the general requirements of a valid transfer of copyright. However, one joint owner lacks the power to transfer the interest of another joint owner without the latter's consent, and a transferee of one joint owner stands in the shoes of his transferor so that he may in turn grant non-exclusive licenses in the work.

d. **Collective Works.** A "collective work" is a work, "such as a periodical issue, anthology, or encyclopedia, in which a number of contributions, constituting separate and independent works in themselves, are assembled into a

²⁴ 17 U.S.C. § 201(a).

collective whole.”²⁵ Consequently each contributor to a collective work owns the copyright in his or her distinct contribution, while the copyright in the collective work as a whole is distinct, and separately held, from the copyrights in each contribution.

3. Duration of Copyright Protection

Copyright protection lasts longer than the protection of other federal statutory forms of intellectual property. For individual authors, copyright subsists for the life of the author plus 70 years.²⁶ In the case of joint artists, the "life" in question is that of the longest surviving joint artist.²⁷ For anonymous, pseudonymous and works made for hire, copyright subsists for 95 years after the year of first publication, or 120 years after the year of creation, whichever expires first.²⁸ Special provisions apply to works created before January 1, 1978, the effective date of the new Copyright Act.²⁹

Works first published on or after January 1, 1978 have terms which extended at least through the end 2002 and, if first published between January 1, 1978 and December

²⁵ 17 U.S.C. § 101.

²⁶ 17 U.S.C. § 302(a); recently extended in the context of the Copyright Term Extension Act of 1998 (“CTEA”). The newly extended term was under a challenge lead by IP legal scholars, notably the well known Stanford Internet law professor Lawrence Lessig, in the context of in Eldred v. Reno, sometimes also referred to as “The Mickey Mouse Case”. The case worked its way up to the Supreme Court where, in January of this year, the Court affirmed the CTEA’s constitutionality. In a seven to two decision in which Justices Stevens and Breyer dissented, Justice Ginsburg, held that: (1) CTEA did not violate constitutional requirement that copyrights endure only for "limited times," and (2) CTEA did not violate plaintiffs' First Amendment rights. 123 S.Ct. 769, 71 USLW 4052, 2003 Copr.L.Dec. P 28,537, 65 U.S.P.Q.2d 1225 (2003).

²⁷ 17 U.S.C. § 302(b).

²⁸ 17 U.S.C. § 302(c).

²⁹ 17 U.S.C. §§ 303-04.

31, 2002, will have terms that extend out through the year 2047, even if the author of the (previously unpublished) work died more than 70 years before.³⁰

All terms of copyright end on December 31 of the year in which they would otherwise expire.³¹

4. Assignment of Copyrights

Because a copyright is personal property, it may be transferred from one party to another. However, in order to effect a transfer of copyright that will stand up to the claims of third parties, two things must happen. First, the transfer must be set forth in a writing that complies with Section 204(a) of the Copyright Act. Said section provides that:

A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

The written assignment must be sufficiently descriptive to allow the court to determine the rights conveyed and the terms of the conveyance with reasonable precision.

Secondly, although a writing signed by the transferor and identifying the copyrights to be transferred is all that is required in order to make the transfer effective as between the immediate parties involved, recordation of the transfer in the Copyright Office in Washington, D.C. is required in order to perfect the transfer against any intervening

³⁰ 17 U.S.C. § 303(a). So, for example, because many of Queen Lili'uokalani's musical compositions may have been first published in the context of "The Queen's Songbook: Her Majesty Queen Lili'uokalani" in 1999, copyright may inhere in those previously unpublished songs through December 31, 2047, notwithstanding the Queen herself having passed away more than 85 years ago. See Copyright Registration Pau-2-515-260.

³¹ 17 U.S.C. § 305.

rights of third parties.³² Non-exclusive licenses to use copyrighted materials need not be in writing but it is always smart to do so to avoid future misunderstandings. Recent case law suggests that security interests also must be recorded.³³ It is therefore advisable to record UCC-1 Financing Statements in the Copyright Office in Washington, D.C. whether or not they are also recorded in states in which the debtor has a place of business, as is appropriate for protecting security interests in "general intangibles" under § 9-103(3) of the Uniform Commercial Code.

5. Termination Rights

The Copyright Act also has special termination provisions which were designed for the benefit of individual authors and their heirs. These provisions allow an individual author or the author's statutory heirs to cancel or terminate a grant or license of copyright made by the author during a five year "window" between the 35th and 40th anniversary of the transfer.³⁴ The purpose of this right is to help authors realize the full market value of their works by allowing authors or their heirs to renegotiate grants (or make new grants) as their works become more valuable with the passage of time.³⁵ The right of termination does not apply to "works made for hire," and expires if not exercised by the author or the author's heirs during the window period.

³² 17 U.S.C. § 205(d).

³³ See In Re Peregrine Entertainment, Ltd., 116 Bankr. Rptr. 194, 16 U.S.P.Q.2d (BNA) 1017, 1023 (C.D. Cal. 1990).

³⁴ 17 U.S.C. §§ 203, 304(c).

³⁵ See H.R. Rep. No. 1476, 94th Cong. 2d Sess. 124, 140 (Sept. 3, 1976).

6. Copyright Formalities

Under earlier law, there were a number of strict formalities that had to be followed in order to secure copyright protection. Numerous amendments to the law have, reduced the complexity of the formalities which must be followed in order to enjoy such protection.³⁶ However, many of these formalities must still be adhered to in order to effectively take advantage of the law's protection.

a. Copyright Notice. Under the old law, a work which did not bear a proper copyright notice, was not afforded protection under the copyright law. Under existing law, all works published on or after March 1, 1989, need not carry a copyright notice. Although not a requirement, the copyright notice still carries a significant prophylactic effect which tends to discourage potential infringers. In addition, a copyright notice has the common sense effect of notifying the world as to the identity of author and the age of the work. There are three elements to copyright notice: 1) designation; 2) year of publication; and 3) copyright owner. Designation of copyright consists of the "©" symbol, the word "Copyright" or the abbreviation "Copr." The second element is the designation of the year of first publication of the work. The last element of copyright notice consists of the name of the copyright owner or an abbreviation by which the name can be recognized, or a generally known alternative designation of the owner.

While these elements of copyright notice do not have to appear in any particular order or juxtaposition, the elements should not be too widely separated otherwise their

³⁶ See J. Dratler, Jr., Intellectual Property Law: Commercial, Creative, and Industrial Property, §§ 7.01-7.04 (1995).

relation may not be apparent in which case the copy at issue may be treated as though the notice were omitted. Under the copyright law, the copyright notice must be placed in such manner and location as to give reasonable notice of the claim of copyright.

b. Deposit of Work. Copies of every published work must be submitted to the Copyright Office for deposit with the Library of Congress.³⁷ Failure to make a deposit does not affect the existence of copyright but may result in the imposition of a fine. Satisfaction of the deposit requirement is usually accomplished through the copyright registration process.

c. Copyright Registration. Under current law, protection exists from the time a work is fixed in a tangible form, whether or not the work is "registered" with the copyright office. While copyright protection does not depend upon registration, registration does give rise to several important procedural and evidentiary advantages. From a practical standpoint, loss of these important rights significantly diminishes the value of the protection afforded in the absence of registration. Therefore, it is recommended that all works of value be registered as soon as possible. Copyright registration forms can be downloaded at <http://lcweb.loc.gov/copyright>. The software needed can be downloaded from this site for free.

(1) Prerequisite to Infringement Suit. First and foremost, registration is a prerequisite to the filing of an infringement action. 17 U.S.C. § 411(a) provides, with some exceptions concerning foreign artists, that "no action for infringement of the copyright in any work shall be instituted until registration of the copyright claim has been made [in the Copyright Office]." In other words, a lawsuit for

³⁷ 17 U.S.C. § 407.

infringement of a work may not be brought unless and until the work is registered with the copyright office. Application for, or the actual receipt of, registration of a claim to copyright must be pleaded in a complaint for infringement of copyright.

The failure to previously register an infringed work does not necessarily preclude the filing of an infringement action. This is because copyright registration can be accomplished on the eve of filing an infringement lawsuit. However, certain important remedies are unavailable if the alleged infringement "commenced . . . before the effective date of registration."³⁸

(2) **Prerequisite to Recovery of Statutory Damages and Attorneys' Fees**. Secondly, 17 U.S.C. § 412 provides that the recovery of statutory damages and attorneys' fees are not available in an infringement action unless the copyright owner has registered the work prior to the infringement.³⁹ If the work involved is first infringed prior to registration, the preclusive effect of § 412 applies even if acts of infringement take place after registration. From a practical standpoint, this rule acts to keep repressive copyright enforcement in cyberspace to a minimum and petty disputes out of the courts because much of Internet content is not registered with the Copyright Office. A litigant without the right to collect statutory damages and attorneys' fees will have to be highly motivated to pursue litigation.

(3) **Statutory Damages**. A plaintiff in an infringement action must, before final judgment in the case, choose between seeking statutory damages or actual damages and profits. Unlike pursuit of actual damages, in order to recover

³⁸ 17 U.S.C. § 412.

³⁹ There is a 3-month grace period for registration after the first publication of the work. 17 U.S.C. § 412(2).

statutory damages, a plaintiff need not prove monetary loss nor monetary gain by the infringer. This can reduce the time and ultimate cost involved in pursuing an infringement claim. The amount of statutory damages that can be awarded by the court is discretionary but can range from \$750 to \$30,000 for each work that has been infringed.⁴⁰ If a willful infringement is proven, the court can award up to \$150,000 without any proof of actual damages, and if the infringement is shown to be innocent, the court has discretion to reduce a damages award to as little as \$200.⁴¹ Obviously, the right to collect statutory damages and/or attorneys' fees provides a litigant with additional leverage that can be extremely useful in settlement negotiations prior to, or after, the filing of litigation.

(4) Evidence of Ownership and Validity of

Copyright. Lastly, the certificate of copyright registration constitutes prima facie evidence of the facts set forth in the certificate and acts to shift the burden of proof regarding those facts from the copyright owner to the defendant if registration is made before or within five years after the first publication of the work. If registration occurs after the five year term, it is within the court's discretion to determine the importance to be afforded the certificate.⁴² In other words, obtaining a certificate of registration within the relevant time period creates a presumption that the copyright is valid. This obviates the need for producing proof on this point at trial and places the burden on the defendant to contest the validity of the copyright.

⁴⁰ 17 U.S.C. § 504(c)(1).

⁴¹ 17 U.S.C. § 504(c)(2).

⁴² 17 U.S.C. § 410(c).

7. Moral Rights

On June 1, 1991, the Copyright Act was amended to grant to "authors only" certain additional rights referred to as "moral rights." These rights only apply to works of visual art which exist in single copies or multiples of no more than 200. The artist's moral rights include the rights of: 1) attribution (the right to have the artist's name affixed or removed from the work); and 2) integrity (the right to stop distortion or mutilation of the work). Specifically, the law, which is found at 17 U.S.C. § 106A provides:

That the author of a work of visual art, subject to the limitations set forth in section 113(d), shall have the right -- (A) to prevent any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation, and any intentional distortion, mutilation, or modification of that work is a violation of that right, and (B) to prevent any destruction of a work of recognized stature, and any intentional or grossly negligent destruction of that work is a violation of that right.

A "work of visual art" is defined to include paintings, drawings, prints, and sculptures, existing in a single copy or in a limited edition.⁴³ Works made for hire are specifically excluded from this definition.⁴⁴ The rights delineated in § 106A subsist for the life of the last surviving author of a work created by more than one artist.⁴⁵

8. International Copyright Law And The WIPO Treaties

There is no "international copyright" that will automatically protect a work of authorship throughout the entire world. Copyright protection in a particular country

⁴³ 17 U.S.C. § 101.

⁴⁴ Id.

⁴⁵ 17 U.S.C. § 106A(d)(3).

depends upon the national laws of that county. Most countries offer protection to foreign works based upon international copyright treaties and conventions.

There are two major copyright conventions, the Universal Copyright Convention (“UCC”) and the Berne Union for the Protection of Literary and Artistic Property (“Berne Convention”). The United States has been a member of the UCC since 1955 and became a member of the Berne Convention in 1989. Generally, the works of an author who is a national or resident of a country that is a member of these treaties, or works first published in a member country, may claim protection under the treaties. The Berne Convention prohibits formal requirements that affect the “exercise and enjoyment” of the copyright, so the U.S. changed its law in 1989 to make the use of a copyright notice optional.

In 1998 the U.S. ratified two new copyright treaties under the auspices of the World Intellectual Property Organization (“WIPO”). The WIPO is one of sixteen specialized agencies of the United Nations system of organizations with headquarters in Geneva, Switzerland. The WIPO is responsible for the promotion and protection of intellectual property throughout the world and for the administration of various multilateral treaties dealing with the legal and administrative aspects of intellectual property. As of January 2002, 178 countries were members of the WIPO.

In 1996 two major treaties were adopted by the diplomatic conference of the WIPO: the WIPO Performances and Phonograms Treaty, and the WIPO Copyright Treaty. These two treaties mark the most extensive revision of international copyright law in over 25 years. The treaties were ratified by the United States in October of 1998.

The WIPO Performances and Phonograms Treaty is intended to develop and maintain the protection of the rights of performers and producers of phonograms in a manner that is effective and uniform, and balances the rights of the larger public interest. A “phonogram” is defined as “the fixation of the sounds of a performance or of other sounds, or of a representation of sounds other than in the form of a fixation incorporated in a cinematographic or other audiovisual work.”⁴⁶ “Fixation” in turn means “the embodiment of sounds . . . from which they can be perceived, reproduced, or communicated through a device.”

The treaty recognizes the “moral” rights of a performer to be identified as the performer and to object to any distortion or modification of the performance that would be prejudicial to the performer’s reputation. The treaty also recognizes the exclusive right of the performer to authorize the broadcasting of their performance, or the fixation or reproduction of their performances in phonograms, or the distribution or rental of their performances in phonograms. Producers of phonograms are given similar rights of reproduction, distribution, and rental of their phonograms.

The WIPO Copyright Treaty is intended to protect the rights of authors in their literary and artistic works. It reiterates that copyright protection “extends to expressions and not to ideas.” It recognizes that computer programs are protected as literary works within the meaning of the Berne Convention, and that compilations of data can be protected as intellectual creations. Authors of computer programs, cinematographic works, and works embodied in phonograms have the right to authorize commercial rental

⁴⁶ Essentially the same as a phonorecord under section 101 of the Copyright Act.

to the public. Authors of literary and artistic works enjoy the exclusive right of authorizing communication to the public of their works.

Both WIPO treaties contain language obligating member states to enact laws addressing certain copyright issues. Both treaties obligate member states to prevent circumvention of technological measures used to protect copyrighted works, and to prevent tampering with the integrity of copyright management information. Also, both treaties require that participating countries protect preexisting works from other member countries that have not fallen into the public domain in the country of origin through the expiration of the term of protection. In addition, both treaties prohibit the conditioning of the exercise of copyrights on the fulfillment of formalities.

B. Copyright Office Procedures and Practice

1. Introduction

Practice before the U.S. Copyright Office ("Office") is fairly straightforward and made relatively easy by the plethora of user-friendly circulars, step-by-step instructions, and registration forms, published by and made available by the Office. These circulars, instructions and forms are written for, and intended to be used by, the lay person. In addition, the Office makes available by telephone, business hours Eastern Standard time, "copyright specialists" to answer those questions not answered by the circulars and instructions, and to assist with the proper completion of Office registration forms.

The Office circulars and specialists will, on occasion, caution the public to seek the advice of a "copyright attorney" for guidance in of the more complex areas of

copyright registration, and particularly in the areas where the copyright law is unsettled or where simple rules are not applicable across the board.⁴⁷

a. **The Role of the Copyright Lawyer in the Registration**

Process. Unlike most legal tasks, the copyright lawyer has quite a number of options as respects the roles he or she plays on behalf of the client in the copyright registration process. The lawyer can simply direct the client to the Office webpages and advise the client to do the registration him or herself; the lawyer can supply the client with applicable Office instructions and forms and review the client's work product before the client submits the form to the Office; the lawyer can prepare, file and accept back from the Office the registration certificate on the client's behalf; or the attorney can refer out the entire matter of copyright registration to a registration service.

In light of the availability of user-friendly circulars, instructions and forms, the copyright lawyer need no longer take a direct, hands-on approach to the registration process on behalf of the client. Indeed many clients, upon discovering how easy the registration process appears, may resent the lawyer who suggests on participating in all aspects of the registration process. Other clients, however, prefer not to be bothered and would rather have the lawyer do it all, no matter how simple the process.

In the context of a business that anticipates having a periodic need to file copyright registrations of the same or similar nature, as for example a music publisher, architectural firm, newspaper, computer programmer, or website designer, a lawyer's role

⁴⁷ For example, Copyright Office Circular 65, entitled "Copyright Registration for Automated Databases", explains that "[i]t is unclear whether on-line availability with or without printers for the user constitutes publication of the work under the copyright law. The Copyright Office does not determine whether a particular database is published or not. Instead, that decision is made by the copyright owner." In other

is often best discharged by acquainting the client with the relevant circulars, instructions, forms and underlying concepts, assisting the client with the first one or several registrations, and then leaving the client to carry on by itself while remaining a resource for the client in the event of questions and new legal developments.

All copyright registrations require some thought and consideration and, at the very least a careful reading of the instructions and relevant circulars. In a few areas, as in the cases of on-line works, multimedia works, automated databases, serials and derivative works, completion of the registration form and the selection of appropriate deposit material is a bit more complicated and obtaining the assistance of a copyright professional who is familiar with recent authority and Office procedures may be indicated.

If all else fails, and particularly where communications with the Copyright Office break down or never existed in the first place, retaining a professional copyright registration service, as for Thomson & Thomson, may be the solution. Thomson & Thomson have personnel who work with the Office on a daily basis, understand how the Office operates, and know who to call or complain to if the Office has lost something, fails to respond, or fails to follow correct procedure. Thomson & Thomson's home page is <http://www.thomson-thomson.com>. You can click through from the home page to the webpage which describes the Copyright Document Filing and Retrieval Services, or you can call Thomson & Thomson's Washington, D.C. office, at (800) 356-8630, during business hours, Eastern Standard time.

publications, the Copyright Office explains that the concept of "publication" under the Copyright Act is complex and suggests seeking the advice of a copyright professional for further guidance.

b. Copyright Office Forms and Publications.

Prior to the ready availability of the Internet, Office forms and publications are available by writing or calling the Copyright Office, or by visiting the federal documents section of the downtown public library or the government documents section of the University library. Recently these same forms and circulars, which have become both more numerous and more useful, have been made available over the Internet, by far the easiest and best way to access the forms and other Office literature.

The Copyright Office home page is <http://www.copyright.gov/>. The Office webpage for accessing registration forms and instructions is located at <http://www.copyright.gov/forms/>. The Office webpage for accessing Office circulars, answers to frequently asked questions, factsheets and other, miscellaneous, Office literature is located at <http://www.copyright.gov/circs/>.

In the event you do not have access to the Internet, the Internet offends you, or your computer printer does not work or does not work well enough, you can request circulars, instructions and forms from the Office by writing:

Library of Congress
Copyright Office
Publication Section, LM-455
101 Independence Avenue, S. E.
Washington, D.C. 20559-6000

or by calling the Office's Forms and Publications Hotline, at (202) 707-9100, available 24/7.

You can also reproduce registration forms yourself so long as you are careful to follow the Office's rules, as for example head-to-head reproduction, no shrinking or enlarging, quality printing and the like, set forth in Circular 1c, available in html at

<http://www.copyright.gov/circs/circ01c.html>, or as a PDF document at <http://www.copyright.gov/circs/circ1c.pdf>.

The Internet circulars and forms are made available in PDF format, which means that you need to have Acrobat Reader installed in your computer. Acrobat is available for free download from <http://www.adobe.com/products/acrobat/readstep.html>. A big advantage of using these PDF forms is that they can be completed while in PDF on your computer, and then printed completed from your computer. This ensures that the data inputted will be correctly formatted within the forms and easily read by the Office's scanners. More information about using and printing Copyright Office forms using Adobe's PDF is available from <http://www.copyright.gov/forms/print.html>.

2. The Registration Process

a. Completing the Registration Forms.

The process of completing Office registration forms is relatively easy so long as the applicant, or attorney, reviews in detail the applicable circulars and instructions prior to selecting and completing the registration forms. We recommend the following procedure when completing copyright registration forms:

(a) Review all copyright circulars, instructions and forms that appear applicable to the subject matter you are planning to register.

(b) If, after you have completely reviewed the applicable Office literature, you have any questions, or there appears to be more than one good response or no good suggested response for completing the form (as there frequently will be), pose the question or options to a copyright Office specialist at (202) 707-3000, or

(202) 707-5959, from 8:30 a.m. to 5:00 p.m., Monday through Friday, excluding federal holidays.

(c) Take notes and preserve a memo of the advice given by the Copyright Office specialist. In the event the specialist is wrong and your registration is challenged, you will have the memo to support the argument that the error was inadvertent and unintentional and, therefore, not affect the validity or enforceability of the copyright.

See also in Circular 1c, "Making Sure Your Application Will Be Acceptable," available at <http://www.copyright.gov/circs/>.

b. Submitting the Completed Registration Form to the Copyright Office. Completed registration forms are mailed,⁴⁸ together with the appropriate deposit material(s), to⁴⁹:

Library of Congress
Copyright Office
101 Independence Avenue, S. E.
Washington, D.C. 20559-6000

While not required, it is advisable to use the U.S. Postal Service's return receipt service available with both registered and certified mail in order to be able to establish receipt of the form and deposit by the U.S. Copyright Office. The Office receives in

⁴⁸ The Office has begun to experiment with an electronic registration procedure, termed CORDS (Copyright Office Electronic Registration, Recordation & Deposit System), which is operational for the online registration of limited digital works but only from certain designated "CORDS test partners". Two years into the project, "the U.S. Copyright Office is temporarily not accepting any new participants in CORDS until the current phase of software development work is completed." Those wanting more information about CORDS should refer to <http://www.copyright.gov/cords/>.

⁴⁹ Due to the anthrax scares following the September 11, 2001 incident, mail directed to the Copyright Office was disrupted between the dates of October 17 through March 4, 2002, and delays in mail processing continue from the resulting backlog. For more information and interim regulations regarding disrupted mail delivery, see http://www.copyright.gov/fedreg/2001/interim_mail.html.

excess of 600,000 applications for registration annually, and currently, the average processing time for most applications, which varies according to the Office's workload, is four to five months. Accordingly, a return receipt (which may not be received back from the Copyright Office for as long as five weeks or more!) will establish proof of submittal and provide a degree of comfort during the long wait for the copyright certificate.

An alternative method for establishing submission to and receipt by the Office of an application to register a claim of copyright is to submit with the application a duplicate copy, stamped COPY, of the application together with a stamped, self-addressed, return envelope and a letter requesting that the Copyright Office stamp the copy RECEIVED with date and mail the copy back in the enclosed, self-addressed envelope.

Further more expensive alternatives, but a good one to consider if you are submitting an application to support an infringement action, is to use a private courier service or to retain the services of a Washington, D.C. document delivery service who will tender the application directly to the Copyright Office and take back evidence of the fact and date of the submittal.

Copyright registration fees, currently fixed for most registration submittals at \$30 but subject to change in the future, can be submitted by check or through the use of a deposit account maintained with the Copyright Office. Payment of application fees by credit card or electronic means is not yet available, although use of credit cards to pay other types of Copyright Office fees is. For more information about Copyright Office fees, and for a complete fee schedule, see <http://www.copyright.gov/docs/fees.html>, and Circular 4, available at <http://www.copyright.gov/circs/circ04.html>.

c. **Registration Form Processing in the the Copyright**

Office. If you would like to know what is happening with your application any time during the first six months that your application is in process, you can send a request that the Office's Certification and Documents Section conduct an "in-process" search of the application and pay the applicable search fee (currently \$75 an hour). If the application has been in process for more than six months, the Office will conduct the in-process search, upon request, free of charge.

If the Office has questions or concerns regarding the manner in which the application was completed or the subject matter for which a claim of copyright is applied for, you or your client (depending upon who is identified in the "Person to Contact" section of the form) will receive a telephone call or letter from a copyright examiner. Correspondence from the office is usually the result of the registration form having been completed incorrectly, the registration form having been completed in a manner that is inconsistent with what is suggested by the deposit material, or because information provided in the form or by deposit material suggests that the subject matter is ineligible for copyright or that the copyright in the subject matter is not owned by the applicant.

The Copyright Office does not conduct a search or other investigation to ascertain whether the claim of copyright is valid or not. The information provided in the registration form and the deposit materials are examined only for conformity to law, Office procedure, and internal consistency.

Copyright Office correspondence **must** be responded to within 120 days or the application will go abandoned and be of no further value and effect. See Circular 7c. A new application can be filed, but the effective date of the registration will then be the date

the new application is received by the Office and the applicant will have lost the advantages flowing from the earlier date of receipt of the first application.

d. Registration Certificate Effective Date and Special

Handling Request. The effective date of a registration is when the Copyright Office actually receives the following three elements: a properly completed application form, the appropriate filing fee, and a deposit of the work being registered. Accordingly an application for registration of copyright, once received by the Copyright Office, will support an action for copyright infringement and the maintenance of such an action, notwithstanding that the application will be in process for five months or more, so long a certificate ultimately issues. For those wanting the comfort or security of knowing earlier that their application will be found acceptable, a special handling procedure is available.

Expedited processing of an application for registration of a claim to copyright is granted at the discretion of the Register of Copyrights. Requests must include details that support the basis for the request, as for example, pending or prospective litigation, contractual matters, or publishing deadlines. The request must be supported by a signed statement that the details are correct to the best of the requestor's knowledge, together with other requirements as are set forth in Circular 10, "Special Handling." The current fee for special handling is \$580 on top of the normal \$30 registration fee. In the event the request is granted, the processing time for the registration certificate is magically reduced from five months to five working days.

3. Selecting and Completing Copyright Registration Forms

a. Types and Selection of Forms.

There are a number of registration forms, the most familiar and often used ones being:

- Form TX, used for the registration of non-dramatic literary works (literature, poems, books, pamphlets and computer programs);
- Form PA, used for the registration of works of performing arts (music, drama, lyrics, motion pictures and other audio visual works);
- Form VA, used for the registration of works of visual arts (pictorial, graphic, sculptural and architectural works);
- Form SR, used for the registration of sound records (and not appropriate for audio-visual CDs or DVDs, though they may also include sound)
- Form SE, used for the registration of periodicals or other serial works.

Other, lesser used and/or specialty forms are Form RE, used for the renewal of copyright registrations; Form GATT, for restoring the copyright in a foreign work that had gone into the public domain, prior to March 1, 1989, as a result of lack of formalities; Form SE/Group, used for the group registration of serial works; Form MW used for the registration of mask works fixed in a semiconductor computer product, and so forth. For a complete listing of copyright registration forms see <http://www.copyright.gov/forms/>.

As if the standard copyright registration forms described above were not easy enough, the Copyright Office recently introduced copyright registration "Short Forms", presently available for forms PA, TX, VA and SE. These short forms may only be used when the copyright author is the copyright owner, the work has only one author, the work is not a work for hire nor is it a derivative work or a work that contains previously published, registered or public domain material, and the work is neither anonymous nor pseudonymous. Use the long forms whenever circumstances do not permit the use of the

Short Forms. See, generally, Factsheet SL 7, "New Short Forms Now Available", which can be obtained from <http://www.copyright.gov/fls/sl7.html>.

In the case of musical works, on-line works, computer programs and interactive works, the correct registration form will not always be obvious. Reference to the applicable Office circulars and/or to an Office specialist will assist in selecting the correct form in the difficult case.

Discussed below are some of the more commonly encountered difficulties in selecting and completing copyright registration forms and preparing deposit materials.

b. Deposit Materials

Deposit materials must accompany all applications for registration of a claim of copyright. In the case of works never before published, generally one copy of the work or identifying material is required. For previously published works, two copies of the work or identifying material describing the work must accompany the registration application. The concept of "publication" under the Copyright Act is highly specialized, and resort may need to be had to the case law, or a treatise such as Nimmer & Nimmer, in order to properly ascertain whether the work, under the circumstances, can be said to have been published or not.

The Office circulars and instructions that accompany the registration forms provide detailed guidance on the types of deposit materials that need to accompany a registration. Generally speaking, the Office requires copies in the case of non-bulking two dimensional works, and also for works that can be fixed on cassettes or CDs. In the case of bulky works or works not easily copied, "identifying material" suffices. Again the Copyright Office circulars and instructions offer helpful guidance on the types of

identifying material that will be found acceptable and how best to prepare such material. See, e.g., Circular 40a, “Deposit Requirements in Visual Arts Material.” Where the instructions are insufficient, resort should be had to a Copyright Office specialist.

c. Completing the Registration Forms Spaces and Blocks.

Completion of certain of the spaces and blocks of the registration forms require close attention to the instructions, the suggested language found in the instructions, and consideration of the work for which a claim of copyright is being made.

For example Space 2, Author(s), requires consideration of whether the work was created by an employee within the scope of his or her employment, or whether the work was specially commissioned under a work-for-hire agreement. Language selected from that suggested in the instructions should be used when completing the Nature of Authorship block.

Space 4, Copyright Claimant(s), should either be the author or a transferee, and in the case of a transferee, a brief statement explaining how the claimants obtained ownership of the work needs to be provided.

Spaces 5 and 6 request information regarding previous registrations, changed versions, preexisting material and material added to the work. Works can only be registered once, and errors in registration forms can have the effect of unfairly extending a term of copyright. The information provided in these blocks are examined for internal consistency and for consistency with the deposit material.

Circular 4, “Copyright Registration for Derivative Works”, provides detailed guidance on completing Spaces 5 and 6 when claiming copyright in a derivative work.

d. Architectural Works.

The registration of the copyright for architectural works is generally straightforward once it is appreciated that the copyright in a building and the copyright in the plans or drawings for the building are distinct. Each requires a separate application for registration. Both are registered using form VA. In the case of registering a claim of copyright in the building, deposit material comprises plans or blue prints if the building is not yet built, and identifying material (8"x10" photographs of several views) if the building is built. In the case of registering a claim of copyright in the plans, deposit materials consist of copies of the plans or blue prints. See Circular 41, "Copyright Claims in Architectural Works".

e. Musical Works and Sound Recordings.

A common error when registering a claim of copyright in musical works and sound recordings is the failure to realize that two forms of copyright are at issue, and to distinguish between these two forms. To register *only* the copyright in a musical composition, being the music and, where applicable, lyrics, use Form PA and deposit either copies of the sheet music or tape cassettes or CDs of a performance of the music. To register *only* the recording of a musical performance, without claiming the copyright in the underlying music or lyrics, use form SR and deposit cassettes or CDs of the performance. To register the copyright in *both* the underlying musical composition *and* the recording of a performance of that composition, use form SR and deposit cassettes or CDs of the performance. In either case be careful when completing the form to claim the applicable subject matter, either the composition, the recording, or both, and not more or less than you intend.

For more information see Circular 56a, "Copyright Registration of Musical Compositions and Sound Recordings" and the helpful matrix provided therein.

f. Computer Programs and Automated Databases

Computer programs are classified as non-dramatic literary work and are registered using Form TX. There is some controversy regarding claiming, separately, a copyright in the screen display produced by a computer program, the Copyright Office taking the position that such a claim is included with the claim for the program. See Circular 61, "Copyright Registration for Computer Programs".

If the only copyright to be claimed is the copyright in the screen display, form PA is used. The better practice, and the practice encouraged by the Copyright Office, is to claim the screen display together with computer program on Form TX by describing both in Space 1 "Nature of Authorship" block. See matrix produced in Circular 61.

Circular 61 also sets forth acceptable options for deposit materials in the case of computer programs containing trade secrets, e.g., depositing only the first and last 25 pages of source code with trade secret portions blocked out, depositing the first and last 10 pages of source code with no blocked out portions, etc. In the case the applicant is unable or unwilling to deposit source code, the applicant may deposit object code and state in writing that the object code contains copyrightable authorship. This will result in a registration being issued by the Offices under its "rule of doubt" with an accompanying caveat that the Office has made no determination regarding the existence of copyrightable authorship.

g. Multimedia and Online Works.

The appropriate form for the registration of multimedia and online works will depend upon the nature of the work, the selection being from among forms PA, SR and TX and, in the case of online works, also forms SE, SE/Group and GR/CP. Where work contains elements appropriate to more than one form, the form most appropriate to those aspects that predominate in the work, usually form PA, should be used.

Completion of the Space 1 "Nature of Work" block, and selection of appropriate deposit materials, is often unclear in the case of multimedia and online works. For guidance, see Circular 55, "Copyright Registration of Multimedia Works" (which includes a matrix to facilitate the selection of the appropriate registration form), and Circular 66, "Copyright Registration of Online Works".

Automated databases are registered in a manner similar to computer programs, using form TX, and in many cases have similar deposit requirements. See Circular 65, "Copyright Registration for Automated Databases". Owners of automated databases may file a group registration for a database that includes updates or revisions for a period covering up to three months, also using form TX. Ibid.

4. Recording Assignments, Licenses and Other Instruments

Affecting Interests in Copyrights. The copyright office does not provide forms for the assignment or transfer of interests in copyrights, nor will it review such documents for sufficiency. But the office will record documents affecting interests in copyrights if proper procedures are followed, and the recording of such documents serve to protect assignees and other interest holders against subsequent purchasers for value.

Notarization of assignments and other transfers is not legally required but provides evidentiary value if the authenticity of signature on the instrument is challenged.

In order to qualify for recordation, the instrument must “pertain to a copyright”, that is, it must have a direct or indirect relationship to the existence, scope, duration or identification of a copyright, or to the ownership, division, allocation, licensing, transfer, or exercise of rights under a copyright, past, present or future. Such instruments include assignments, all varieties of licenses, contracts, mortgages, security interests, powers of attorneys, wills, and decrees of distributions. Instruments affecting unpublished as well as published works are eligible for recordation.

In order to qualify for recordation, the instrument must

- have an original signature, or be a photocopy accompanied by a sworn or official certification that the attached reproduction is a true copy of the original signed document;
- be complete by its own terms, e.g., a document that references an attachment must be accompanied by the attachment;
- be legible and capable of being imaged; and
- be accompanied by the appropriate recordation fee, currently \$80 for a single title and \$20 for each group of 10 additional titles.

The Copyright Office provides a Cover Sheet that is optional but that in most cases should be used when requesting recordation of a document affecting interests in copyrights. The Cover Sheet is available, with instructions, from the Copyright Office or its website. Use of the Cover Sheet when requesting recordation facilitates the recordation process and also helps ensure that all requisites of the recordation process

will be met. For example instruments which fail to clearly describe the work, or identify the assignor or assignee, will not be sufficient for recordation and will also not provide information sufficient for completion of the Cover Sheet.

Two copies of the cover sheet, with the original document or certified photocopy, and fee, is mailed to:

Library of Congress
Copyright Office
Documents Recordation Section, LM-462
101 Independence Avenue, S.E.
Washington, D.C. 20559-6000

Records of transfer and instruments affecting interests in copyrights can be searched, as in the case of registrations and renewals discussed below, using either the Copyright Office's online catalog, Copyright Office personnel for a fee, or a commercial search service. See Circular 12, "Recording of Transfers and Other Documents" for more information about recording and searching instruments affecting interests in copyrights.

5. Searching and Investigating Copyrights

Determining whether a claim for copyright to a given work has been made, or whether a claim of copyright in a work continues to subsist, has been made very much more difficult by the relaxation of copyright formalities, the extension of copyright terms, and the restoration of copyrights in certain foreign works previously in the public domain. Notwithstanding, such determinations begin with a copyright search.

Copyright searches can be performed online, using the Copyright Office's automated database, can be ordered from the Copyright Office for a fee currently calculated at \$75 an hour, or can be ordered through commercial searching services such as Thomson & Thomson.

While the Copyright Office performs fee based searches on its records, it will not provide an opinion as to whether a copyright in a given work subsists or not. In addition, the results of any search, whether done by the Copyright Office or another, will depend on the quality and quantity of the information provided. If, for example, a work is known by two titles only one of which was used in the registration process, and the searcher is given only the alternative title, the resulting search will suggest no claim of copyright exists when in fact one does. Similarly errors in the name of the author will give rise to erroneous copyright search results.

Online searches for registrations and renewal registrations made from 1978 until the present can be conducted through the Copyright Office's online catalog, located within the Office website at <http://www.copyright.gov/records/>. Copyright Office personnel use this same database for searching post-1978 records. It takes several months after a new application to register the copyright in a work is made to show up in this database. Searches for registrations and renewals made prior to 1978 must be conducted at the Copyright Office, by Copyright Office personnel, for a search fee.

For more information regarding searching the Copyright Office records, and how to determine whether a claim of copyright may continue to subsist in a given work, see Circular 22, "How to Investigate the Copyright Status of a Work", Circular 1b, "Limitations on Information Furnished by the Copyright Office", Circular 6, "Access to and Copies of Copyright Records and Deposits", Circular 15a, "Duration of Copyright: Provisions of the Law Dealing with the Length of Copyright Protection", and Circular 23, "Copyright Card Catalog and Online File".

C. Copyright Litigation

1. Copyright Infringement Generally

Copyright infringement comes in three flavors. It can be direct, contributory or vicarious. Even though the Copyright Act does not specifically impose liability for infringements committed by a third party, the lack of express language in the statute to this effect does not preclude the imposition of liability on parties who have not engaged in the infringing activity.⁵⁰ Direct infringement does not require intent or any particular state of mind, although the defendant's willfulness is relevant and an award of statutory damages. Contributory infringement arises when, with knowledge of the infringing activity, a defendant induces, causes or materially contributes to the infringing conduct of another. Contributory infringement is based on the person's connection with the infringing activity, not necessarily to the direct infringer. Vicarious infringement arises when the defendant is vicariously liable for the action of the direct infringer because the defendant: 1) had the right and ability to control the infringer's acts, and 2) received a direct financial benefit from the infringement.⁵¹ Unlike contributory infringement, knowledge is not an element of vicarious liability. It is based on the person's connection with the direct infringer, not necessarily the infringing activity.

To prevail in an infringement action, a Plaintiff must show valid ownership of a valid copyright and unauthorized copying of protected elements of the copyrighted

⁵⁰ Sony Corp. v. Universal City Studios, 464 U.S. 417, 78 L.Ed.2d 574 (1984).

⁵¹ Id.

work.⁵² Copying is proven by direct evidence of copying. However, such evidence is rarely available, therefore copying may also be shown by circumstantial evidence of access and substantial similarity of the copyrighted work and the allegedly infringing work.⁵³

a. Access

Access has been defined as the actual viewing by the defendant of the plaintiff's work,⁵⁴ or the reasonable opportunity by the defendant to read, hear, or view the plaintiff's work.⁵⁵ If only the "possibility" exists that the defendant had access to the work, access will be lacking.⁵⁶ Access can be established by demonstrating that the work has enjoyed widespread circulation, that it was sent to the defendant or by evidence that a third party with whom both plaintiff and defendant were dealing had a copy of the plaintiff's work.⁵⁷ Early on, the Ninth Circuit suggested that the clearer the proof of access, the lower the quantum of proof necessary to show substantial similarity⁵⁸, however, more recent case law calls this view into question.⁵⁹

⁵² Apple Computer, Inc. v. Microsoft Corp., 35 F.2d 1435, cert. denied, 115 S.Ct. 1176; Brown Bag Software v. Symantec Corp., 960 F.2d 1465, 1472 (9th Cir. cert. denied, 506 U.S. 869, 113 S.Ct. 198, 121 L.Ed.2d 141 (1992).

⁵³ Apple, supra, at 1442.

⁵⁴ Bradbury v. Columbia Broadcasting Sys., Inc., 287 F.2d 478 (9th Cir. 1961).

⁵⁵ Sid Marty Krofft Television Prod., Inc. v. McDonald's Corp., 562 F.2d 1157 (9th Cir. 1977).

⁵⁶ Jason v. Fonda, 698 F.2d 966 (9th Cir. 1982).

⁵⁷ Kamar Int'l, Inc. v. Russ Berrie and Co., 657 F.2d 1059 (9th Cir. 1981).

⁵⁸ See Sid & Marty Krofft Television Prod., Inc. v. McDonald's Corp., 562 F.2d 1157 (9th Cir. 1977).

⁵⁹ See Aliotti v. R. Dakin & Co., 831 F.2d 898 (1987).

b. Substantial Similarity

Most courts have used some form of bifurcated test to demonstrate "substantial similarity," inquiring first if there is copying and second if an audience of reasonable persons will perceive substantial similarities between the accused work and protected expression of the copyrighted work.⁶⁰ In the Ninth Circuit, this two-part test for substantial similarity finds its roots in Sid & Marty Krofft Television Prods., Inc. v. McDonald's Corp., 562 F.2d 1157, 1164 (9th Cir. 1977). In Krofft, the first question is labeled the "extrinsic" test and it asks if there is similarity of ideas. "Analytic dissection" is allowed at this stage. "Analytic dissection" focuses on isolated elements of each work to the exclusion of the other elements, combination of elements, and expressions therein. The second Krofft question is labeled the "intrinsic" test and it asks if an "ordinary reasonable person" would perceive a substantial taking of protected expression. At this stage, "analytic dissection" is not appropriate. The Ninth Circuit has modified this test "bringing it more in line with the test followed in other circuits."⁶¹ In Apple, supra, at 1442-43, the court noted that:

[A]s it has evolved, however, the extrinsic test now objectively considers whether there are substantial similarities in both ideas and expression, whereas the intrinsic test continues to measure expression subjectively . . . [W]e use analytic dissection to determine the scope of copyright protection before works are considered `as a whole.'"

In Shaw v. Lindheim, 919 F.2d 1353, 1357 (9th Cir. 1990), the court clarified that "the two tests are more sensibly described as objective and subjective analyses of

⁶⁰ Dr. Seuss Enters., L.P. v. Penguin Books U.S.A., Inc., 109 F.3d 1394 (9th Cir. 1997).

⁶¹ Seuss, supra, at 1398.

expression . . ." While this may all seem very confusing, the current state of the law in the Ninth Circuit on this issue may be stated as follows: Substantial similarity may be found whenever the works share significant similarity in protected expression both on an objective, analytical level and on a subjective, audience-response level.⁶² Under this test, expert opinion may be relevant not only to the analysis of ideas behind the two works, but also to the objective analysis of expression.⁶³

The Second Circuit has adopted a two-step "abstraction-filtration comparison" in determining the similarity of computer programs,⁶⁴ which finds its origin in the "abstractions" test, first enunciated by Judge Learned Hand in Nichols v. Universal Pictures Corp., 45 F.2d 119 (2d Cir. 1930), cert. denied, 282 U.S. 902 (1931).

c. Remedies for Infringement

(1) Damages/Profits. A successful plaintiff may recover its actual damages, or the infringer's profits, or statutory damages, whichever is greater.⁶⁵ At least one court has held that a victorious plaintiff is entitled to an accounting so that it may determine which measure of recovery is best.⁶⁶ If recovery of both profits and actual damages is not duplicative, it is permitted.⁶⁷ It is also possible to recover

⁶² Seuss, supra, at 1398, n.4.

⁶³ Kouf v. Walt Disney Pictures & Television, 16 F.3d 1042 (9th Cir. 1994); Brown Bag Software v. Symantec Corp., 960 F.2d 1465 (9th Cir.), cert. denied, 506 U.S. 869 (1992).

⁶⁴ See Computer Asso. Int'l, Inc. v. Altai, Inc., 982 F.2d 693 (2d Cir. 1992).

⁶⁵ 17 U.S.C. § 504(a).

⁶⁶ See Committee on the Status of Women, 821 F.Supp. 531 (N.D.Ill. 1993).

⁶⁷ 17 U.S.C. § 504(a).

statutory damages under the Copyright Act and lost profits under the Lanham Act.⁶⁸

If an election is made to recover the infringer's profits, a plaintiff only has to prove the amount of the infringer's gross receipts. The burden then shifts to the defendant to prove any deductible costs or expenses and a fair method of allocating them to the infringing activity. If the defendant fails to introduce evidence of the costs and profits that are not attributable to the infringement, the defendant's gross revenues are the appropriate measure of profits.⁶⁹

In lieu of actual damages and the infringer's profits, a plaintiff may recover statutory damages from \$750 to \$30,000 per work infringed.⁷⁰ The court has discretion to fix the amount of statutory damages and, in the case of innocent infringement, can award as little as \$200, or in cases of willful infringement, can award up to \$150,000.⁷¹

(2) **Injunctive and Other Relief.** Injunctive relief is available for copyright infringement.⁷² The usual analysis of equitable factors such as likelihood of success on the merits, the existence of irreparable harm, the balance hardships, public policy, clean hands, etc. applies.⁷³ Courts also have the power to seize, impound, dispose of, and destroy infringing copies and any devices used to make them.⁷⁴

⁶⁸ See Nintendo of America, Inc. v. Dragon Pac. Int'l, 40 F.3d 1007 (9th Cir. 1994), cert. denied, 115 S.Ct. 2256 (1995).

⁶⁹ Cream Records, Inc. v. Joseph Schlitz Brewing Co., 864 F.2d 668 (9th Cir. 1989).

⁷⁰ 17 U.S.C. § 504(c).

⁷¹ Id.

⁷² 17 U.S.C. § 502.

⁷³ See Apple Computer, Inc. v. Formula Int'l, Inc., 725 F.2d 521 (9th Cir. 1984).

⁷⁴ 17 U.S.C. § 503; Central Point Software v. Nugent, 903 F.Supp. 1057 (E.D. Tex. 1995); Duchess Music Corp. v. Stern, 458 F.2d 1305 (9th Cir.), cert. denied, 409 U.S. 847 (1972).

Finally, infringing items can be excluded from importation into the United States,⁷⁵ and infringing copies and devices used to make them can be seized and forfeited upon their unauthorized importation into the United States.⁷⁶

(3) **Attorneys' Fees and Costs.** The court in its discretion may award costs and attorneys' fees to the prevailing party in a copyright infringement action.⁷⁷ The "prevailing party" is the party who was successful at the conclusion of all proceedings, whether or not a trial on the merits was required.⁷⁸ A party who succeeds on a claim of copyright infringement is a "prevailing party" under the Act, even if that party did not succeed on its other claims.⁷⁹ Prevailing plaintiffs and prevailing defendants are treated alike.⁸⁰

d. **Defenses to Infringement**

(1) **Statute of Limitations.** Civil actions for copyright infringement must be brought within three years after the claim accrued.⁸¹ The limitations

⁷⁵ 17 U.S.C. §§ 602-03

⁷⁶ 17 U.S.C. § 509.

⁷⁷ 17 U.S.C. § 505.

⁷⁸ Balcaen v. Herschberger, 418 F.Supp. 333 (E.D. Wis. 1976); Maljack Productions, Inc. v. Palisades Entertainment, 36 U.S.P.Q. 2d 1281 (C.D. Cal. 1995).

⁷⁹ Branch v. Ogilvy & Mather, Inc., 772 F.Supp. 1359 (S.D.N.Y. 1991).

⁸⁰ Fogerty v. Fantasy, 510 U.S. 517, 114 S.Ct. 1023 (1994). Fogerty resolved a conflict between the Ninth Circuit's "dual" standard for awarding attorneys' fees under § 505, and the so-called "evenhanded" approach exemplified by the Third Circuit. Under the "dual" standard of awarding attorneys' fees, a greater burden was placed upon prevailing defendants than prevailing plaintiffs. See e.g., Diamond v. Am-Law Publishing Corp., 745 F.2d 142, 148-149 (CA2 1984). The nonexclusive factors a court is to consider in determining whether to award a prevailing party attorneys' fees under the Copyright Act include frivolousness, motivation, objective unreasonableness (both in the factual and legal components of case) and the need in the particular circumstances to advance considerations of compensation and deterrence.

⁸¹ 17 U.S.C. § 507.

period commences from the date of the last infringing act.⁸² If the infringing activity continues beyond the three-year period, only the acts which occurred within the three-year period are actionable.⁸³

(2) **Laches.** Unreasonable delay coupled with prejudice to the defendant may provide a defense to infringement.⁸⁴

(3) **Estoppel.** If the plaintiff has lead the defendant to believe that the defendant's conduct is not infringing, or would not be claimed as such, the defense of estoppel may apply.⁸⁵

(4) **Statute of Frauds.** In order for a transfer of copyright ownership (including the exclusive rights under copyright) to be valid, there must be an instrument of conveyance, or a note or memorandum of the transfer, in writing that is signed by the owner of the rights conveyed or his duly authorized agent.⁸⁶

(5) **Fair Use.** By definition, fair use is not infringement.⁸⁷ See discussion of fair use, supra.

⁸² United States v. Shabazz, 724 F.2d 1536 (11th Cir. 1984).

⁸³ Roley v. New World Pictures, Ltd., 19 F.3d 479 (9th Cir. 1994); but see Taylor v. Meirick, 712 F.2d 1112 (9th Cir. 1983) (if infringement amounts to a "continuing wrong", only last infringing act need be within limitation period to permit recovery for all infringing acts).

⁸⁴ Hampton v. Paramount Pictures Corp., 279 F.2d 100 (9th Cir.), cert. denied, 364 U.S. 882 (1960).

⁸⁵ Id.

⁸⁶ 17 U.S.C. § 204(a). Konigsberg Int'l, Inc. v. Rice, 16 F.3d 355 (9th Cir. 1994); Effects Asso., Inc. v. Cohen, 908 F.2d 555 (9th Cir. 1990), cert. denied, 498 U.S. 1103 (1991).

⁸⁷ 17 U.S.C. § 107.

(6) **Independent Creation.** The independent creation of a work means that the work is not a "copy" and will preclude liability based upon alleged infringement.⁸⁸

(7) **Ideas are Not Protected.** Copyright protection extends only to the expression of an idea not the idea itself.⁸⁹

(8) **Lack of Originality.** Only original works of authorship are protected by copyright.⁹⁰

(9) **Miscellaneous.** Additional defenses to alleged infringement may include abandonment,⁹¹ forfeiture⁹², misuse⁹³, unclean hands⁹⁴, and innocent intent.

2. **Jurisdiction and Venue**

Federal court jurisdiction for copyright infringement actions is both original and exclusive.

The district courts shall have *original jurisdiction* of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall *be exclusive* of the

⁸⁸ Granite Music Corp. v. United Artists Corp., 532 F.2d 718 (9th Cir. 1976).

⁸⁹ 17 U.S.C. § 102(b); Mazer v. Stein, 347 U.S. 201 (1954); Herbert Rosenthal Jewelry Corp. v. Kalpakian, 446 F.2d 738, (9th Cir. 1971). See Section II, B(1)(c)(1), *supra*.

⁹⁰ 17 U.S.C. § 102(a). Kamar Int'l, Inc. v. Russ Berrie & Co., 657 F.2d 1058 (9th Cir. 1981). A valid copyright registration is *prima facie* evidence of originality. 17 U.S.C. § 410(c); Johnson Controls, Inc. v. Phoenix Control Systems, Inc., 886 F.2d 1173 (9th Cir. 1989).

⁹¹ Nat'l Comics Publications, Inc. v. Fawcett Publications, Inc., 191 F.2d 594 (9th Cir. 1951).

⁹² Id.

⁹³ Supermarket of Homes, Inc. v. San Fernando Valley Board of Realtors, 786 F.2d 1400 (9th Cir. 1986).

⁹⁴ Broderbund Software, Inc. v. Unison World, Inc., 648 F.Supp. 1127 (N.D. Cal. 1986).

courts of the states in patent, plant variety protection *and* copyright cases.

28 USC § 1338(a)(emphasis supplied).

Venue for copyright infringement cases is appropriate in the district where the infringer, or its agents, reside or are "doing business."

Civil actions, suits, or proceedings arising under any Act of Congress relating to copyrights or exclusive rights in mask works or designs may be instituted in the district in which the defendant or his agent resides or may be found.

28 USC § 1400(a).

A challenge to the validity of a copyright is an appropriate subject for a declaratory judgment claim brought and maintained pursuant to 28 USC § 2201, and is not infrequently found as a counterclaim in the context of an infringement action. See, e.g., 28 USCS § 2201 n. 61 and the cases cited therein.

3. Federal Preemption of State Law Claims

a. Preemption of Common Law Copyright. Under pre-1976 Act law, or until January 1, 1978, U.S. copyright law comprised federal copyright protection, which arose from federal statute, together with state common law copyright protection referred to as simply "common law copyright." 1 M Nimmer & D. Nimmer, Nimmer on Copyright § 2.02 at 2-18 (2001); Wheaton v. Peters, 33 U.S. (8 Peters) 591 (1834); Goldstein v. California, 412 U.S. 546 (1973). Common law copyright required no formalities, began at the moment of creation, and ended with publication. Ibid. Once published, following federal law formalities would obtain for the work federal protection, otherwise the work would fall into the public domain.

It is unclear whether a common law copyright existed, or exists, in unpublished works in Hawaii. There are no published cases, state or federal, which discuss common law copyright in Hawaii. Federal cases which do discuss the state right can be read to imply that common law copyright existed throughout the United States without any requirement that a state appellate court specifically find or recognize its existence. Because the last vestiges of common law copyright have all but disappeared, it is likely that the question whether Hawaii's common law ever encompassed a right of protection of copyright inhering in unpublished works will go unanswered.

The peaceful coexistence of the two, complementary, forms of copyright protection substantially ended, on January 1, 1978, with the passage of the Copyright Act of 1976.

On or after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified in section 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

§ 301 of the Copyright Act, 17 U.S.C. § 301 (2000).

Subsequent to the passage of the 1976 Act, only causes of action for infringement of copyright in unpublished works that accrued prior to January 1, 1978, causes of action for infringement of works of original authorship not fixed in a tangible medium of expression (e.g., unrecorded extemporaneous dance), and causes of action for infringement of sound recordings first fixed before February 15, 1972 (the date when federal statutory protection became available for such works), arguably survive § 301

preemption. 1 M. Nimmer & D. Nimmer, supra, §1.01[B][2] & §2.02. State causes of actions for misappropriation of works not within the subject matter of copyright, as for example compilations of facts or ideas, if available, would also survive copyright preemption. Ibid.

b. Preemption of Other State Law Claims. Copyright preemption is both explicit and broad. G. S. Rasmussen & Associates, Inc. v. Kalitta Flying Serv., Inc., 958 F.2d 896, 904 (9th Cir. 1992).

The intention of section 301 is to preempt and abolish any rights under the common law or statutes of a State that are equivalent to copyright and that extend to works coming within the scope of the Federal copyright law. The declaration of this principle in section 301 is intended to be stated in the clearest and most unequivocal language possible, so as to foreclose any conceivable misinterpretation of its *unqualified intention that Congress shall act preemptively*. . . .

* * *

As long as a work fits within one of the general subject matter categories of sections 102 and 103, the bill [now statute] prevents the States from protecting it even if it fails to achieve Federal statutory copyright because it is too minimal or lacking in originality to qualify, or because it has fallen into the public domain.

H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. 129-33 (1976) (emphasis supplied), reprinted in 8 M. Nimmer & D. Nimmer, Nimmer on Copyright, App. 4-127 to App. 4-128 (2001).

A state law cause of action is preempted by federal copyright law if: (1) the subject matter of the cause of action (that is, the “work”) comes within the subject matter of copyright as specified by 17 U.S.C. §§ 102 and 103; and (2) the state law right asserted

is equivalent to any of the exclusive rights within the general scope of copyright and specified by 17 U.S.C. § 106. See 17 U.S.C. § 301; Del Madera Properties v. Rhodes and Gardner, Inc., 820 F.2d 973, 976 (9th Cir. 1987), overruled on other grounds as recognized by Kodadek v. MTV Networks, Inc., 152 F.3d 1209, 1213 (9th Cir. 1998); Ehat v. Tanner, 780 F.2d 876, 878 (10th Cir. 1985).

The second part of this preemption test is referred to as the “equivalent rights test” or the “extra element test.” See Del Madera, 820 F.2d at 977; Data Gen. Corp. v. Grumann Systems Support Corp., 795 F. Supp. 501, 505 (D. Mass. 1992). The crux of the inquiry under the equivalent rights test is whether the claimed state law right is qualitatively similar enough to the right protected by federal law to be termed equivalent to, and thus preempted by, federal law. Data General, 795 F. Supp. at 505. See Del Madera, 820 F.2d at 977.

The name “extra element test” is misleading in that, merely alleging a state law violation that requires proof of extra elements in addition to the elements required to prove copyright infringement does not, by itself, establish qualitatively different conduct on the part of the allegedly infringing party, nor does it always establish a fundamental nonequivalence between the state and federal rights implicated. Data General, 795 F. Supp. at 505. See also Computer Associates Int’l, Inc. v. Altai, Inc., 982 F.2d 693, 716 (2d Cir. 1992). The mere presence of additional elements, such as awareness or intent, which alter the action’s scope but not its nature, will not prevent preemption. Computer Associates, 982 F.2d at 717. The focus of the second part of the preemption inquiry is the equivalence of the rights being implicated, not the equivalence of elements making a prima facie case.

Consequently courts have fairly consistently held that the state law unjust enrichment and quasi contract claims, misappropriation and some forms of unfair competition claims, when concerning copyrightable subject matter, will be preempted by federal copyright law; whereas state law claims for invasion of privacy and publicity, conversion, trade secret rights and other forms of unfair competition, will not. The Federal court split with respect to whether a breach of contract claim having copyrights as its subject matter is subject to statutory preemption under Section 301 of the Copyright Act, the outcome depending upon both the circumstances and the circuit. See generally 1 M. Nimmer & B. Nimmer, Nimmer on Copyright, § 1.01[B][1](2001).

Practitioners not sufficiently familiar with copyright law will sometimes make the mistake of filing wholly preempted state law claims, without an accompanying federal copyright infringement claim, in state court. While the oversight is likely curable if discovered prior to the running of the three year statute of limitations for copyright infringement, having to re-file the case in federal court is not something pleasant to explain to a client.

III. TRADEMARKS

A. Trademark Basics

1. A Brief History of Trademarks. For thousands of years people have used symbols to indicate the ownership or origin of various forms of property.⁹⁵ One of the earliest precursors to modern trademarks was the early practice of branding animals to indicate ownership. Throughout history, artisans and craftsmen have utilized marks to indicate authorship of everything from swords to sailcloth.⁹⁶ Every year, American businesses spend billions of dollars in mass market advertising that utilizes various symbols to identify and distinguish one business' goods and services from another's. All 50 states have at least some statutory law relating to the ownership and/or protection of trademarks.

In 1870, the United States adopted the first federal statutory scheme for trademark registration. Modern trademark law began in 1946 with the passage of the Trademark Act of 1946,⁹⁷ commonly referred to as the Lanham Act (herein sometimes the “Act”), which created substantive and procedural rights in trademarks and the law of unfair competition.

The Lanham Act has undergone substantial modification since its enactment. The more significant recent amendments include the Trademark Laws Revisions Act (“TLRA”) of 1988, which introduced intent-to-use applications into the U.S. for the first time, the Federal Anti-Dilution Act of 1996, which made dilution a federal ground of

⁹⁵ See Schechter, *The Historical Foundations of the Law Relating to Trademarks* (1925); *Trademark "timeline,"* 82 Trademark Rep. 1022, 1040 (1992).

⁹⁶ See Doi, *The Intellectual Property Law of Japan*, 117 (1980); *The Writings of Thomas Jefferson*, 157 (A.E. Berghed 1907).

infringement of famous marks, and the Trademark Law Treaty Implementation Act (“TLTIA”) of 1998, which substantially relaxed many of the formalities of the registration and renewal process in order to conform U.S. law to the requirements of the Trademark Law Treaty.

2. **The Law of Unfair Competition.** Trademark law is a subspecies of the law of unfair competition that provides protection against a vast variety of unfair business practices. Unfair competition is a form of commercial tort, but unlike some other business torts, such as misappropriation of trade secrets, unfair competition is not a tort with specifically defined elements. Instead, it proscribes in sweeping, almost philosophical terms behavior that is injurious to commercial interests. Bonito Boats, Inc. v. Thundercraft Boats, Inc., 489 U.S. 141 (1989). The Federal Trade Commission Act, 15 U.S.C. § 44 (a)(1), prohibits unfair or deceptive conduct in commerce. Most states, including Hawaii, have unfair and deceptive acts and practices statutes that also proscribe competitive conduct that is unfair. See § 480-2 and Chapter 481A, HRS, discussed *infra*.

The courts have struggled for years to come up with a comprehensive definition of unfair competition but have failed to reach a clear consensus. Accordingly, one is required to examine the vast case law that has been decided to determine, in the context of particular facts and circumstances, various activities that have been found to amount to unfair competition. As Professor McCarthy notes, "only concrete examples will make the term 'unfair competition' . . . live". 1 Thomas J. McCarthy, *McCarthy on Trademarks and Unfair Competition*, 1:9, at 22 (2000). McCarthy lists the following examples of conduct that have been labeled "unfair competition" by the courts:

⁹⁷ Trademark Act of 1946, Pub.L. No. 489, 79th Cong., 2nd Sess., 60 Stat. 412 (July 5, 1946), codified as

Infringement of trademarks and service marks; dilution of good- will in trademarks; use of confusingly similar corporate, business and professional names; use of confusingly similar titles of literary works or other literary property, and on commercial goods; the appropriation of distinctive literary and entertainer characterizations; simulation of a container or product configuration and of trade dress and packaging; infringement of the right of publicity; misappropriation of valuable business values; bait and switch selling tactics; false representations and false advertising; palming off goods by unauthorized substitution of one brand for the brand ordered; theft of trade secrets; sending cease and desist letters charging patent infringement before a patent has been granted; sending cease and desist letters to customers of a competitor charging patent infringement without having a reasonable basis for a belief that there was infringement; an unreasonable rejection of goods shipped under contract; and physically obstructing entrance to a competitor's place of business and harassing its customers.

The foregoing list, while not exhaustive, demonstrates that virtually any conduct that exceeds the prevailing norms of good and fair business practices is conduct that may amount to unfair competition.

3. **What are Trademarks, Service Marks and Trade Names?** The simple answer is that almost anything can be used as a trademark if it identifies and distinguishes one person's goods from that of another or indicates the source or origin of the goods. The Lanham Act, in § 45, defines a trademark as follows:

The term "trademark" includes any word, name, symbol or device or any combination thereof 1) used by a person . . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.

The Lanham Act similarly defines "service marks" as marks that act to identify and distinguish or indicate the source of a person's services rather than goods. Service

amended at 15 U.S.C. §§ 1051-1127.

marks are used by virtually any business that renders services such as restaurants, law firms, banks, Internet service providers, etc.

"Trade names" are, however, a different kettle of fish. Unlike marks whose primary function is to identify the origin of goods or services that bear the mark, trade names are used to identify a particular business, such as a corporation's legal name, or a sole proprietor's fictitious trade name such as "Bob Smith dba the Web Wizard."

The terms "brand" and "brand name", often heard in advertising and marketing circles, are essentially synonymous with "trademark" or "service mark".

4. **Certification and Collective Marks**. In addition to trademarks and service marks, the Lanham Act recognizes two additional species of marks made available for more highly defined uses. Certification marks are marks which "certify regional or other origin, material, mode of manufacture, quality, accuracy, or other characteristics of [a] person's goods or services or that the work or labor on the goods or services was performed by members of a union or other organization." Section 45, Lanham Act. Examples of certification marks include the "Good Housekeeping Seal of Approval" and the "Underwriter's Laboratory" stamp of approval. These marks do not indicate the "source" or "origin" of the particular goods or services upon which they appear but rather they certify that the product or service meets with certain standards established by the certifying entity.

The Lanham Act defines "collective marks" as marks that indicate "membership in a union, an association or other organization." *Id.*

5. **Policies Behind Trademark and Unfair Competition Law**. The four main policy justifications for protecting trademarks and other indicators and

identifiers of source or origin are (1) to protect the goodwill of a business to which the mark attaches; (2) to prevent unjust enrichment through the misappropriation of marks, and the consequent goodwill, of others; (3) to promote competition; and (4) to protect consumers' expectations and/or to protect them from deception and fraud. Not all rationales need be present to justify the application of trademark and unfair competition laws, and cases often rely upon the protection of consumer expectations alone. *See, e.g., William H. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526 (1924).

6. Trademarks Contrasted with Patents and Copyrights.

Trademark and unfair competition law is a subset of that larger area of law known as intellectual property. Intellectual property law also includes patents, copyrights and trade secrets. Whereas trademarks are used to identify the source of a particular product or service, a patent protects new, useful and unobvious inventions, and copyright law protects original works of authorship fixed in a tangible medium of expression such as, for example, original art, music and literature. Whereas patents and copyrights need to be original and have limited terms, trademarks need only have been adopted and used first and have potentially unlimited terms.

Aspects of intellectual property protection overlap, and it is not unusual for more than one type of intellectual property protection to apply to a given product or service. Computer software, for example, may be protected, at the same time, by patent, copyright and trade secret law. Software that is branded, as is Windows® software, is also protected by trademark.

One significant area of overlap as between species of intellectual property is the protection that can be afforded the outward appearance or configuration of useful articles.

Such designs are arguably protectable both as a form of trade dress under the Lanham Act and as a design patent under the Patent Act.⁹⁸ However the quality of protection is not coextensive and a design patent terminates after 14 years, whereas the trade dress protection never has to.

7. **Trademark Formats.** The following few examples underscore the limitless subject matter for trademarks and service marks.

Letters can be used as trademarks. For example, "ABC" Stores is readily recognizable as a popular chain of discount stores in the State of Hawaii. "KHON," "KPOI" and the "YMCA" are recognizable as the service marks, respectively, of a television station, a radio station, and a nonprofit organization.

Numbers can also be used as a trademark. The number "4711" is a trademark that identifies the fragrance of a German cologne manufacturer. Alpha-numeric combinations such as "V-8" juice and "7-Eleven" convenience stores are examples of highly recognized trademarks.

Word marks combined with generic or functional prefixes and suffixes, such as 1-800-MATTRESS or AMAZON.COM, can also constitute trade and service marks, although such marks are viewed for purposes of registration and infringement as if without their functional element. *See, e.g.*, Trademark Office Examination Guide No. 2-99 available at <http://www.uspto.gov/web/offices/tac/notices/guide299.htm>.

⁹⁸ Where the design patent and trade dress protection attach to different aspects of the product design, there should be no dispute that both forms of intellectual property protection are potentially applicable. Where, however, they attach to the same aspects of the product design, there is some question whether the Patent Clause of the Constitution prohibits the holder of an expired patent from claiming trade dress protection. *See generally* 1McCarthy § 8.21. On March 20, 2001, the U.S. Supreme Court in *Traffix Devices v. Marketing Displays, Inc.*, discussed *infra*, specifically declined to decide this issue in the context of trade dress protection being claimed on the subject matter of an expired utility patent.

Surnames can function as trademarks if used sufficiently to acquire secondary meaning. Surname marks having developed secondary meaning can even function to limit another's use of his or her own name within a given area in conjunction with a business. Finlay, Inc. v. Finlay, 218 N.E.2d 531 (N.Y. Ct. App. 1966); Stout v. Laws, 37 Haw. 382 (1946).

Visual designs may also serve as a trademark. The Nike swoosh, the Macintosh Apple, the red-and-green Gucci stripes and the "∞" used by Infinity Audio Products are all trademarks.

Slogans can serve as trademarks. For example, *Intel Inside*® is a registered trademark of Intel Corporation and is used to indicate the source of microprocessor chips used in personal computers. *Just Do It*® is a trademark of Nike and is used in connection with their line of sporting goods and apparel. *Where do you want to go today?*® is a registered trademark of Microsoft Corporation.

In 1995, the United States Supreme Court ruled that a color or a combination of colors can be protected as a trademark. Qualitex Co. v. Jacobson Products Co., 514 U.S. 159 (1995). Moreover, a "fresh, floral fragrance reminiscent of plumeria blossoms" used on "sewing thread and embroidery yarn" was successfully registered as a trademark. *In Re Clark*, 17 U.S.P.Q.2d 1238 (TTAB. 1990).

Even sounds have been registered as trademarks. The notes "G, E and C" have been registered by the General Electric Company as a trademark used in connection with programs produced and/or presented by the National Broadcasting Company.

Packaging and three dimensional article configurations, termed trade dress and discussed in some detail below, including unique building designs, have been recognized as protectable trademarks.

Because many of these non-traditional trademark formats are not perceived by the public as source identifiers, acquired distinctiveness or secondary meaning sometimes needs to be established in order to register such marks,⁹⁹ and also prior to the courts affording such marks protection in the context of infringement actions. *See e.g., Qualitex Co. v. Jacobson Products Co., supra*, (having demonstrated that the green-gold color of pads sold to dry cleaning firms had developed secondary meaning, the color alone was capable of being registered as a trademark) ; The Rock and Roll Hall of Fame and Museum v. Gentile Productions, 134 F.3d 749 (6th Cir. 1998) (overturning a holding below that the design of the Rock and Roll Hall of Fame in Cleveland, Ohio was "inherently distinctive" and finding, instead that, there was insufficient evidence that the owners had consistently held out the building design as a source identifier).

As a result of 1999 amendments to 37 CFR Part 2, Rules of Practice in Trademark Cases, § 2.52 concerning requirements for drawings was modified to make reference to marks that include motion, color, sound, scent and "other completely non-visual matter".

⁹⁹ Under the current state law, the Department of Commerce and Consumer Affairs ("DCCA") only registers traditional trademark and service mark formats consisting of words and two dimensional design elements. Other states do register some of the non-traditional trademark formats. Under Hawaii's new trademark law, scheduled to into effect July 1, 2003, the definition of trademark and service mark is expanded from "a mark" used by a person to identify and distinguish goods or services to "any word, name, symbol, or device or any combination thereof" used by a person to identify and distinguish goods or services. §482-1, Haw. Rev. Stat.. Yet to be seen is whether the DCCA and /or Hawaii courts will construe "device" as including non-visual source identifiers.

8. **Spectrum of Trademark Distinctiveness.** Because the primary function of a trademark is to identify and distinguish one person's goods or services from that of another, a trademark must be distinctive if it is to act as an identifier. Trademark law accords marks varying degrees of protection depending upon the mark's degree of distinctiveness which equates to the mark's "strength". A four-tier classification has developed that delineates marks as being: 1) arbitrary or fanciful; 2) suggestive; 3) descriptive; or 4) generic. *See, e.g., Abercrombie & Fitch Co. v. Hunting World, Inc., 537 F.2d 4 (2d Cir. 1976); U.S. v. Six Thousand Ninety-Four (6,094) "Gecko" Swimming Trucks, 949 F.Supp. 768, 770 (D. Haw. 1996).*

a. **Arbitrary and Fanciful Marks.** An arbitrary or fanciful mark, on its face, has no definitional relationship to the associated goods or services apart from the association flowing from use of the mark in connection with particular goods or services. Such marks are referred to as "inherently distinctive" and therefore easily distinguish one person's goods and services from those of another. Fanciful marks are generally words that have been specifically invented for the purpose of identifying a person's goods or services. The words "Clorox" and "Kodak" do not appear in the dictionary because they have no accepted meaning other than the designation of a particular "brand" of product. Arbitrary marks generally consist of words that have an independent meaning separate and apart from the brand of goods or services that they are used to designate. For example, the word "Ivory" is a trademark when used in connection with soap products, but it also refers to the color ivory and the tusks of elephants. Similarly, the term "Apple" is a trademark when used in connection with personal computers but is clearly understood by most people to be a type of fruit.

Arbitrary and fanciful marks are accorded the highest degree of protection under trademark law and are deemed the strongest of all varieties of marks.

b. **Suggestive Marks**. Suggestive marks typically suggest some characteristic of the associated goods or services but require some degree of “imagination, thought and perception to reach a conclusion as to the nature of the goods.” Stix Prods., Inc. v. United Merchants and Mfrs., Inc., 295 F. Supp. 479, 487-88 (S.D.N.Y. 1968). Examples of suggestive marks include "Q-Tips," a mark identifying cotton tip medical swabs; "Playboy," a mark identifying an adult men's magazine; and "Uncola," a mark that identifies a noncola soft drink. Suggestive marks, like arbitrary and fanciful marks, are considered to be "inherently distinctive," and are likewise accorded a high degree of protection, though not as high as arbitrary and fanciful marks. Arbitrary, fanciful and suggestive marks are readily registerable as trademarks at both the state and federal level.

c. **Descriptive Marks**. Descriptive marks describe some characteristic, quality, purpose, component or other aspect of a product or service. A mark is descriptive if it "forthwith conveys an immediate idea of the ingredients, qualities or characteristics of the goods." Stix Prods., Inc. v. United Merchants and Mfrs., Inc., *supra*, 295 F.Supp. at 487-88. Descriptive marks are accorded a lower level of protection under the law and are not registerable on the Principal Register unless the applicant can demonstrate that consumers have come to associate the mark as a source identifier. The law refers to this learned association as "acquired distinctiveness" or "secondary meaning." Marks that have been considered as descriptive marks include "Chapstick" for a lip ointment; "Ice" for a beer; and "Tender Vittles" for a brand of cat

food. The Lanham Act provides that continuous use of a mark in commerce by the applicant for a period of five years is *prima facie* evidence of "acquired distinctiveness" thereby entitling the applicant to register such a mark on the Principal Register. Lanham Act, § 2(f).

d. Generic Marks. A generic mark is really not a trademark at all. Generic terms merely indicate categories or types of products and, by themselves, tell nothing about the good or service involved. Generic marks are not protected by trademark law because generic terms must be used by competitors to describe their goods and services and therefore should be freely available for unfettered use. The phrase "face soap" cannot be protected as a trademark because, if it were, the "owner" of the mark would have the right to prevent other soap manufacturers from using the term in connection with their products. Such a monopoly would clearly be unfair to other soap makers. In CES Publishing Corp. v. St. Regis Publications, Inc., 531 F.2d 11, 13 (2d Cir. 1975), the court held that:

To allow trademark protection for generic terms, i.e., names which describe the genus of goods being sold, even when these have become identified with a first user, would grant the owner of the mark a monopoly, since a competitor could not describe his goods as what they are.

A term that is considered generic for one product or service may, however, be considered arbitrary when applied to a different product. In addition, it is possible for fanciful or arbitrary terms to morph or evolve into generic terms if consumers come to believe that a mark is the generic name for a particular type of product or service. *See, e.g., King-Seeley Thermos co. v. Aladdin Industries, Inc.*, 321 F.2d 577 (2d Cir. 1963)

(describing the generitization of the “thermos” mark). Other marks that have become generic include "escalator," "cellophane," and "aspirin”.

Trademark owners need to be vigilant in order to guard against their marks becoming generic through use. Xerox®, for example, has run ad campaigns cautioning the public to use the term Xerox as an adjective only in conjunction with Xerox brand copiers and not a noun synonymous with photocopiers. Owners of the marks Rollerblade® and Jetski® have encountered the same challenge.

It has been held locally that the mark JAMS is not generic for “baggy drawstring waist, nearly knee-length (and casual wear) shorts”. Surf Line Hawaii, Ltd. v. Ahakuelo, 13 U.S.P.Q.2d 1975, 1976 (D. Haw. 1989).

9. Trade Dress. Trade dress involves the total image of a product and may include features such as size, shape, color or color combinations, texture or graphics. While the concept of trade dress originally involved a product's packaging or labeling, the courts have come to recognize that the design or appearance of a product itself may act to identify and distinguish it from other products and therefore be protectable as trade dress.

As with other source indicators to be protected, trade dress must be distinctive. Distinctiveness is generally established by proof that either: 1) the mark is inherently distinctive (i.e., it is suggestive, arbitrary or fanciful so that its intrinsic nature serves to identify a particular source); or 2) the mark has acquired distinctiveness (e.g., through long use, advertising, etc., so that it has come to identify a particular source)

The question arose whether trade dress could be inherently distinctive such that it could be registered and deemed protectable without evidence that it had acquired

distinctiveness or secondary meaning. The Supreme Court visited this question twice, the first time in the case of Two Pesos v. Taco Cabana, 505 U.S. 763, 120 L.Ed.2d 615 (1992).

Taco Cabana operated a chain of Mexican restaurants in Texas that sported a decor that was described as:

[a] festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme.

505 U.S. at 765, citing 932 F.2d 1113, 1117 (5th Cir. 1991). Several years after Taco Cabana opened its restaurant chain, Two Pesos came along and opened a restaurant in Houston with a motif that was similar to Taco Cabana's. Taco Cabana sued Two Pesos alleging trade dress infringement.

The trial court held that Taco Cabana's trade dress was neither descriptive nor functional but rather was inherently distinctive. On appeal, the Supreme Court resolved a split in the circuits and held that trade dress that is inherently distinctive is protectable under Lanham Act § 43(a) without a showing that it has acquired secondary meaning. The Court saw no rationale in the Lanham Act for treating words and other symbols of origin differently.

Debate continued and last year the Supreme Court limited its holding in *Two Pesos* in the context of unregistered trade dress that comprised no more than a product design. Wal-Mart Stores, Inc. v. Samara Brothers, Inc., 529 U.S. 205 (2000), involved “knockoff” copies of designer children’s clothing described as “spring/summer one-piece

seersucker outfits decorated with appliques of hearts, flowers, fruits and the like” in which designer Samara claimed unregistered trade dress protection. 529 U.S. at 207. The Court in *Wal-Mart* refused to find that the outfits were deserving of protection laying down the “bright line rule” that product configuration trade dress can *never* be classified as inherently distinctive and the plaintiff asserting infringement of unregistered product design trade dress under the Lanham Act must *always* prove that the design has acquired secondary meaning in the market place. *Two Pesos* remains good law, however, in that unregistered trade dress that includes more than just product configuration, as for example trade dress comprising or including product packaging and labeling can, in some cases, still be found inherently distinctive.

Functional trade dress cannot be protected by trademark law, even if the distinctive trade dress features have become associated with a particular source. According functional trade dress protection would give a single source a monopoly that would deprive others of useful designs, hindering rather than promoting competition. As stated by the court in *In re Deister Concentrator Co.*, 289 F.2d 496, 504 (C.C.P.A. 1961):

[A]s to some . . . shapes the courts will never apply the "secondary meaning" doctrine so as to create monopoly rights. The true basis of such holdings is not that they cannot or do not indicate source to the purchasing public, but that there is an overriding public policy preventing their monopolization, of preserving the public right to copy. A certain amount of customer confusion may even be tolerated in order to give the public the advantages of free competition.

In this sense, the functional features of trade dress are analogous to generic terms under general trademark analysis. A "product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article." Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844, 850 n.10 (1982). So, for example, in *In re*

Oscar Mayer & Co., 189 U.S.P.Q. 295 (TTAB 1975), a molded plastic package for sliced luncheon meats was held functional, and therefore not protectable, in that the raised platform held a specified amount of meat and ribs or grooves strengthened the package and aided in the packaging process.

However, a design will not be denied protectable trade dress status simply because the design serves a useful purpose. In Vuitton et Fils S.A. v. J. Young Enters., Inc., 644 F.2d 769, 774 (9th Cir. 1981), the Ninth Circuit held that:

Where a shape or feature of construction is in its concept arbitrary, it may be or become a legally recognizable trademark because there is no public interest to be protected. In such a case protection would not be lost merely because the shape or feature also serves a useful purpose.

The Hawaii district court, in Famolare, Inc. v. Melville Corp., 472 F.Supp. 738 (D. Haw. 1979), held that Famolare's wavy-bottom soles were a functional feature, "not necessarily because it is utilitarian and absolutely required for the use of the article, but rather because it is 'an important ingredient in the commercial success of the product.'" 472 F.Supp. at 743. However the validity of the holding in Pagliari v. Wallace China Co., 198 F.2d 339, 341 (9th Cir. 1952), upon which *Famolare* appears to be premised, has been seriously questioned. *Villeroy & Boch Keramische Werke K.G. v. THC Sys., Inc.*, 999 F.2d 619 (2d Cir. 1993) (finding hotel china designs protectable trade dress notwithstanding its "aesthetic functionality").

Until very recently, the federal circuits were split as to who had the burden of proof regarding a product's functionality. In the Ninth Circuit, nonfunctionality had been made a part of plaintiff's *prima facie* case, *Clamp Mfg. Co. v. Enco Mfg. Co.*, 870 F.2d

512, 516 (9th Cir.), *cert. denied*, 493 U.S. 872 (1989), while the Second and Tenth Circuits have held functionality to be a defense.

Congress acted first to settle the dispute when, in the context of the Trademark Amendments Act of 1999 (Lanham Act § 43(a)(3)), it enacted into law the Ninth Circuit view and expressly placed on a plaintiff asserting infringement of an unregistered trade dress the burden of proving non-functionality.

Then the Supreme Court in Traffix Devices, Inc. v. Marketing Displays, Inc., 532 U.S. 23, 121 S.Ct. 1255, 149 L.Ed.2d 164 (2001) re-affirmed, as it were,¹⁰⁰ the Congressional enactment in a case involving the configuration of a mechanism that holds road signs upright in adverse wind conditions. Marketing Displays had been granted a utility patent on the mechanism which subsequently expired. When Traffix Devices began copying the mechanism, plaintiff sued under Section 43(a) of the Lanham Act on the basis of unregistered trade dress. The Sixth Circuit upheld the action and the Supreme Court reversed, finding that the Sixth Circuit had failed to consider the significance of the expired utility patent that demonstrated functionality of the product design.¹⁰¹

10. Interplay Between Common Law, Statute Statutory and Federal Trademark Rights. As discussed in some detail below, trademark rights may be accrued under State law by virtue of adoption and use (common law rights) or

¹⁰⁰ Although the case arose under pre-Trademarks Amendments Act of 1999 law, the district court had decided the case under the Sixth Circuit rule where, like in the Ninth Circuit, the burden was on the plaintiff to establish that the trade dress is not functional. In its opinion, the Court simply points out that the rule applied by the district court is the same as was subsequently adopted by Congress.

¹⁰¹ The Court expressly declined to decide whether the Patent Clause of the Constitution prohibits the holder of an expired utility patent from claiming trade dress protection.

registration (statutory rights). For marks used or intended to be used in interstate or international commerce, trademark rights may also accrue pursuant to provisions of the Lanham Act through registration on either the Principal or Supplemental Registers of the United States Patent and Trademark Office (“USPTO”). Whereas federal law does not itself provide substantive rights for unregistered marks, federal law does allow for the recognition and enforcement of common law rights in unregistered marks arising under state law.

So, for example, the owner of a trademark used in interstate or international commerce can bring an action for unfair competition under Section 43(a) of the Lanham Act, even though the mark was never registered under either state or federal law. Also, pursuant to the Lanham Act’s Section 33(b)(5) limited area exception, the owner of a mark registered on the Principal Register pursuant to the Lanham Act cannot displace from an area of prior use one who earlier adopted and used continuously thereafter the same or confusingly similar mark.

As between two common law users, the claimant who first adopts and uses continuously thereafter a mark in a given territory has the best right to continue using the same or confusingly similar mark in that territory, and can displace therefrom junior users. *See, e.g., Blue Bell, Inc. v. Farah Manufacturing Co.*, 508 F.2d 1260 (5th Cir. 1975)(examining the nature and quality of first use in a contest between two would-be nationwide users of the mark TIME OUT for men’s slacks and shirts).

A state registration places those throughout the state on constructive notice of the registrant’s claim of ownership in the mark. *See, e.g., Haw. Rev. Stat. § 482-3* (specifically applicable only to trade names after the July 1, 2003, but trademark and

service mark registrations under the new law would be expected to have the same state-wide preemptive effect). As between a common law user and the owner of a state trademark registration, the state registrant will not be entitled to displace from the territory of prior use one who earlier adopted and used continuously thereafter the same or confusingly similar mark. Also, although a state registration precludes others within the state from developing subsequent common law rights in the same or confusingly similar mark, a state registrant who does not put to use a registered mark within a reasonable time following registration may lose to a good faith subsequent user of the same or confusingly similar mark. Galt House, Inc. v. Home Supply Co., 483 S.W.2d 107 (Ky. Ct. App. 1972).

A federal registration on the Principal Register places those throughout the nation on constructive notice of the registrant's claim of ownership in the mark. Lanham Act §22. Also, pursuant to Section 7(c) of the Act,

the filing of an application to register such mark shall constitute constructive use of the mark, conferring a right to priority, nationwide in effect, on or in connection with the goods and services specified in the registration against any other person except for a person whose mark has not been abandoned and who, prior to such filing - (1) has used the mark .

...

Consequently, as between the owner of a mark registered on the Principal Register and the common law user, the owner of the registered mark will have better rights in all territories, excepting only those in which the common law user may have, in good faith and without knowledge of the federal registrant's prior use (if any), adopted and used continuously thereafter the same or confusingly similar mark prior to the federal registration having been applied for (for all applications filed on or after November 16, 1989, the effective date of the Trademark Law Revisions Act of 1988), or having issued

(for all application filed prior to November 16, 1989). Lanham Act § 33(b)(5); Thrifty Rent-a-Car System, Inc. v. Thrift Cars, Inc., 831 F.2d 1177 (5th Cir. 1987).

Jurisdiction of the federal court in Lanham Act actions is original and not exclusive so that actions pleading Lanham Act causes, whether for registered or unregistered marks, can be litigated in either state or federal court. Lanham Act § 39(a). Trademark claims that rely solely upon state registrations, or common law rights not involving interstate or international commerce, must be filed and decided in state court.

11. Proper Use of Trademark, Service Mark, and Registration

Symbols. Anyone claiming rights in a trademark, whether or not registered, may use the TM symbol in association with their use of the mark on or in conjunction with goods to publicly assert their claim. Similarly, the SM symbol can be used in connection with a claimed service mark. The mark need not be registered in order to use these symbols or designations and, accordingly, the appearance of a TM or SM in association with a mark is not determinative of the validity of a person's claim of having rights in the mark. If a mark is not federally registered, or if a federal registration is pending and has not yet issued, the TM or SM designation should be used and not the ® symbol.

The statutory notice ® indicates that a mark has been federally registered. The ® symbol may only be used when a mark has been registered with the USPTO, whether on the Principal or Supplemental Registers. Other permissible forms of federal statutory notice include the words "Registration in U.S. Patent Office" or "Reg. U.S. Patent Off." Lanham Act, § 29. Use of any form of the statutory notice will constitute constructive notice of federal registration of the mark, qualifying a plaintiff in an infringement action to profits and damages even in absence of establishing actual notice. *Id.*

When a trademark is used in a visual media, it should be distinguished from any adjoining material by the use of a different type, size or style and by the affixation of the appropriate trademark notice, i.e. TM, SM, or ®. In addition, the mark should be used as an adjective, in connection with a generic or descriptive term for the goods or services, so as to function as a source indicator, and not as a noun.

B. Federal Trademark Law

1. **Registered and Unregistered Marks.** The Lanham Act provides for the registration of marks on the Principal and Supplemental Register, as well as for the protection of both registered and unregistered marks. Sections 1 through 22 of the Act set forth procedures for registration on the USPTO's Principal Register of marks used in commerce, whereas Sections 23 through 28 of the Act set forth procedures for registration of such marks on the USPTO's Supplemental Register. Provisions regarding false designation of origin or false descriptions, commonly known as the "unfair competition" under the Lanham Act, which protect unregistered as well as registered trademarks that are used in interstate or international commerce, are set forth in § 43(a) of the Act. Remedies for infringement of registered and unregistered marks used in commerce are set forth in § 32 of the Act.

2. **Principal and Supplemental Registers.** While registration of a mark with the USPTO is not required in order to acquire rights in a mark, nor must one register a mark prior to its use, a number of significant advantages flow from federal registration of a trademark. If a trademark is inherently distinctive (as is the case with arbitrary, fanciful or suggestive marks), or if a mark is descriptive but has become distinctive by virtue of having developed secondary meaning, it can be registered on the

Principal Register of the USPTO. Marks registered on the Principal Register are accorded *prima facie* evidence of validity, and the registrant enjoys the exclusive right to use the registered mark in connection with the subject goods or services. Act, § 7(b). After a mark has been on the Principal Register for a period of five years, it becomes incontestable and can only be challenged on very selective grounds, typically genericness and fraud. Act, § 15.

Marks registered on the Supplemental Register are generally marks descriptive of the goods and services for which they are being claimed that have not yet acquired secondary meaning. While marks registered on the Supplemental Register are not accorded the same high level of protection as marks registered on the Principal Register, registration on the Supplemental Register does act to impart notice to interested parties that the owner claims the exclusive right to use the mark in connection with the subject goods or services. A supplemental registration endows the registrant with priority as against subsequent would-be registrants of the same or confusingly similar mark and can act as a powerful deterrent to others who may want to adopt and use the mark.

3. Use and Intent to Use Applications. Applications to register marks on the Principal Register may be based upon actual use, in which case the application is referred to as a “use application” or one made under § 1(a) of the Act, or, alternatively, applications may be based upon a "bona fide" intent to use the mark in (interstate or international) commerce, in which case the application is referred to as an “intent-to-use” or ITU application or one made under § 1(b) of the Act.

C. State Trademark Law

1. Common Law Rights In Hawaii. Under U.S. common law, rights in and ownership of trademarks arise simply by adoption and use, and the common

law of Hawaii is no different in this respect. As early as 1895, the Hawaii Supreme Court recognized that the

right to a trade-mark [sic] is founded upon possession, and possession rests upon the mere act of adoption and use. Brown on the law of trade-marks, Sect. 46, and cases cited. Registration of a trade-mark is not essential to its ownership, or to the right to sue for an infringement, one object of the statute of registration being to afford a convenient method of proving an adoption of the trade-mark . . .

Gear v. Kenyon, 10 Haw. 162, 163 (1895).

The dispute in *Gear* was over the ownership of the title *Independent* of a newspaper, which the court found to be a proper subject of a trademark but not of a copyright. The court held that plaintiff, the mark's former owner, had "abandoned" the mark by changing the paper's name such that plaintiff was not entitled to prevail in an infringement action against the defendant who adopted the name *Independent* for a competing newspaper a mere seven days after the name change.

The common law rule set down in *Gear* was reaffirmed half a century later in Stout v. Laws, 37 Haw. 382 (1946). In *Laws*, the purchasers of the assets and goodwill of the Laws Roofing Company owned by Howard Laws, on the corner of Ala Moana and Cooke Street, were frustrated in their attempts to register the Laws Roofing Company partnership as a result of a pre-existing registration of a partnership of the same name, one of whose partners was a Merritt T. Laws. The court determined the parties' respective rights to use the name "according to common-law principles of general application," explaining that:

[t]he right to adopt and use a trade name to distinguish the business or places of business to which the name is applied from other businesses or place of business similarly engaged and to the use of such name to the exclusion of such others has been recognized by the common law and protected both at law and in equity. Differently from trademarks, trade

names are usually applicable to a business and its good will. Although strictly speaking a trade name is not a property right, its exclusive use by the first appropriator will be protected.

Trade names may be established without registration under the acts of Congress relating to trademarks or copyrights and without registration under the local law pertaining to trademarks and trade names. (R.L.H. 1945, c. 179). They are acquired by adoption and use for a period of time sufficiently long for the public to associate the name with the business to which it is applied. They belong to the one who first uses them and gives them value. If Howard W. Laws was the first to adopt the name “Laws Roofing Company” as the name of his roofing business in Honolulu, and he used the same exclusively from all others engaged in the same business for a period of time sufficiently long for the public to associate the name “Laws Roofing Company” with the roofing business conducted by him, then it may be said that Howard W. Laws had acquired a common-law right to the exclusive use of that name in connection with his roofing business according to common-law principles of general application.

37 Haw. 385-86. Based upon the evidence presented, the court concluded that “the surname ‘Laws’ had become so completely identified with the particular business conducted by Howard W. Laws as to become synonymous with it. It had acquired secondary meaning.” 37 Haw. 386.

The common law concept of acquisition and ownership of trademark rights through adoption and use espoused in *Stout v. Laws* and *Gear v. Kenyon* can be found in the common law of all states. As discussed above rather than trumping state common law rights, the Lanham Act specifically accommodates pre-existing common law rights through its Section 33(b)(5) “limited area exception.” *See, e.g., Burger King of Florida, Inc. v. Hoots*, 403 F.2d 904 (7th Cir. 1968).

2. State Statutory Rights and Registration Practice. The registration and protection of trademarks, service marks, prints, labels and trade names is provided for in Hawaii through Chapter 482. Hawaii’s current law addressing trademark registration and protection lacks much of the substance found in the Lanham Act and in

the trademark laws of most other states. The anachronistic current law does not take into account the differences between marks and business names, nor the goods and services for which the mark is being proposed. The statute does not preclude the registration of confusingly similar marks, allows the registration of marks registered by others at the federal level, and does not require applicants to provide evidence that the mark is in use.

Fortunately Hawaii's Legislature, in Act 15 of the 2001 Session Laws, amended Hawaii's trademark law by implementing a version the Model State Trademark Bill effective July 1, 2003. Initially we discuss state statutory trademark rights and registration practice under the law as it exists today, followed by a discussion of state statutory trademark rights and registration practice under the law as it will exist beginning July 1, 2003.

a. Trademark Rights and Registration Practice Under State

Current Law. Trademarks, service marks and trade names are registered by filing an application with the Business Registration Division ("BREG") of the Department of Commerce and Consumer Affairs ("DCCA"). Haw. Rev. Stat. § 482-3. A certificate of registration issued therefore "shall be constructive notice to all persons of applicant's claim of the use of the . . . trademark, service mark, or trade name throughout the State" Haw. Rev. Stat. § 482-3(a). This constructive notice provision endows the owner of a mark registered under Chapter 482 with priority over a subsequent user of the same or confusingly similar mark anywhere in the State, regardless whether or not the junior user

had actual notice of the registration. Carrington v. Sears, Roebuck & Co., 5 Haw. App. 194, 683 P.2d 1220 (1984).¹⁰²

As presently constituted, the State has a single register for trademarks, service marks, trade names and business names. An application for registration of a name or mark will be rejected only if the name or mark is the same or "substantially identical" to a previously registered mark, trade name or business name. Consequently the State accepts applications, and issues certificates of registrations, for marks that are "confusingly similar" to marks already on the State's register, whereas the State will refuse to register a trademark or service mark that is the same or "substantially identical" to a business name even though that business name may not be used publicly and/or the uses of the name may bear no relation to the goods and services for which applicant desires to use its mark. The State also issues registrations with no regard to whether the same or confusingly similar mark may already have been registered on the Principal Register of the USPTO.

Explained in a different way, the State merely examines applications to register trademarks and services marks (as well as proposed business names) to determine whether the name is the same or substantially identical to a mark or name already registered on its own register.¹⁰³ This is not an altogether happy situation because many deceptively similar names and marks are permitted registration, and marks which directly

¹⁰² *Carrington*, which appears to be the sole published decision that considers rights accrued as a result of a Chapter 482 state registration, does not discuss the effects of state registration vis-a-vis junior users but does apply an infringement analysis to a situation where defendant began using the same or similar mark subsequent to plaintiff's registration of the mark.

¹⁰³ Although applicants for marks and trade names are made to describe the manner in which the name or mark is used, there is no provision in the law to consider the manner of use when examining the applications or issuing the certificates.

conflict with federally registered marks are permitted registration, whereas other marks which are not likely to deceive or confuse consumers are refused registration simply because they are the same as, or substantially identical to, an existing registration.

Registration at the state level does not, technically, create rights in a mark. Such rights can only be acquired by actual use, although there is no requirement, as there is at the federal level to demonstrate evidence of use.¹⁰⁴ Nor does the registration abrogate pre-existing rights. “The acceptance of an application and issuance of a certificate of registration . . . shall not abrogate or limit any common law or other right of any person to any . . . name or trademark.” Haw. Rev. Stat. § 482-3. Consequently an application and the issuance of a certificate will not trump the rights of a pre-existing user, at least not within the territory of prior use. Stout v. Laws, 37 Haw. 382 (1946).

The State does not entertain applications based only on an intent to use a mark, as the Lanham Act has since 1989.

Registrations made through June 30, 2003 are initially good for one year and may be renewed, for further 10 year terms (but only if the renewal application can be filed prior to July 1, 2003), upon an application for renewal filed “not earlier than six months prior to the registration expiration date.” Haw. Rev. Stat. § 482-3(b); Haw Admin. Rules. § 16-36-12(e). Like the initial application, an applicant for renewal is not required to provide evidence of continued use.

¹⁰⁴ Because there is no requirement to produce evidence of actual use, applicants sometimes apply to register names and marks in advance of using them, and registrations do issue therefore. Such premature registrations may become the subject of revocation hearings and, if the petitioner can demonstrate it used its mark prior to the registrant, the registration will be revoked. *See, e.g., In re “Pineapple Bowl”* (DCCA Final Order November 13, 1980).

Because the renewal term under Hawaii new trademark law is five years as opposed to the current renewal term of 10 years, it behooves all those holding current registrations that are now or will prior to July 1, 2003 be within six months of expiration (either because a current 10 year term is expiring, or because a current one year initial term is expiring) to file to renew the registration no later than June 30, 2003.

A mark will be deemed abandoned if it is not used for 365 consecutive days and not registered with the USPTO. Haw. Rev. Stat. § 482-6. But an unused or abandoned mark will remain registered unless and until the renewal expires or a petition for revocation is granted by the DCCA.

Haw. Rev. Stat. § 482-4 makes it unlawful for anyone to adopt or use a mark that is "identical to or confusingly similar with any" registered mark. Therefore, while the DCCA regularly registers confusingly similar names and marks, a senior registrant has the right to petition the DCCA, or sue in court, to have the junior users stop using its mark and have the registration certificate revoked or canceled. Haw. Rev. Stat. § 482-8 ; Carrington v. Sears, Roebuck & Co., *supra*. The DCCA will also entertain petitions to revoke state registrations based upon a mark earlier registered with the USPTO.¹⁰⁵ While the current state trademark law provides for criminal penalties and fines in the case of false applications and applications for identical and similar marks, no civil remedies are described therein.

¹⁰⁵ Beginning November 16, 1989, any state trademark right accruing subsequent to a federal application would be preempted by the resulting federal registration. Prior to November 16, 1989, only state trademark rights that accrued subsequent to the issuance of a federal application were preempted. See discussion, *supra*.

b. Trademark Rights and Registration Practice Under

Hawaii's New Law. During their 2001 session, Hawaii's lawmakers enacted "A Bill for an Act Relating To Trademarks" ("Act"), which amended Chapter 482 to incorporate the Model State Trademark Bill ("Model Bill"). Originally promulgated by the International Trademark Association ("INTA") (formerly the United States Trademark Association) in 1949, the Model Bill was proposed to foster uniformity among existing state trademark statutes and address proposals mandating compulsory registration statutes. Since its inception, the Model Bill has been adopted in 46 states as the foundation for their trademark statutes. See INTA description of the Model Act and recent amendments thereto at: <http://www.inta.org/policy/mhguide.shtml>. A copy of the model bill can be found at <http://www.inta.org/policy/mstb.shtml>.

The Model Bill was patterned after the Lanham Act and contemplates that courts will interpret the law in accordance with federal decisions under the Lanham Act. Accordingly, the current version of the Model Bill – but **not** the Hawaii Act - provides that:

The intent of this Act is to provide a system of state trademark registration and protection substantially consistent with the federal system of trademark registration and protection under the Trademark Act of 1946, as amended. To that end, the construction given the federal Act should be examined as persuasive authority for interpreting and construing this Act.

Model Bill, Section 19.¹⁰⁶

The new law will, presumably, cause BREG to create a register for trademarks and service marks separate from their business names register; require that applicants

¹⁰⁶ Although the Model Bill, as enacted in Hawaii, does not include this section, courts that take notice of the legislative history of the bill should come to the same or similar conclusion.

desiring to register trademarks and service marks do so in accordance with a classification of goods and services that is the same or analogous to the classification used by the USPTO¹⁰⁷; require applicants to provide evidence in the form of specimens of their use of the mark; requires applicants to specify the date they first began using the mark anywhere, as well as within the State; and provide a statement that the mark is not identical to, or likely to cause confusion with, a mark previously registered in the State or in the USPTO. § 482-22, Haw. Rev. Stat.

Like its federal counterpart, the law will preclude the registration of marks which:

- (1) consist of or comprise immoral, deceptive or scandalous matter;
- (2) matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols;
- (3) consist or comprise the flag or coat of armor of the United States or any state, municipality, or foreign nation;
- (4) comprises the name, signature or portrait of a living individual without their permission;
- (5) are merely descriptive, misdescriptive, geographically descriptive or geographically deceptively misdescriptive, or generic, with respect to the goods or services, except that descriptive marks may be registered upon a showing of acquired distinctiveness including a showing that the mark has been in continuous use in conjunction with such good and services for a period of five years or more;
- (6) so resemble a mark registered in the state or a mark “or trade name” previously used by another and not abandoned, as to be likely, when used on or in connection with the goods or services of the applicant, to cause confusion or mistake or to deceive.¹⁰⁸

¹⁰⁷ Currently, the DCCA intends to require separate applications and registration certificates for each class of goods and services.

¹⁰⁸ While the new law mandates that only marks which are not likely to be confused with other marks should be registered, BREG is considering examining applications made under the new law in accordance with the current “substantially identical” standard. *See* February 21, 2003 Pacific Business News article entitled “Hawaii’s New Trademark Law will Mirror Federal Model.” BREG’s reluctance to adopt the new standard has to do with staff sophistication and workload. Because examination of marks under the new

§ 482-21, Haw. Rev. Stat.

Registrations under the new law are good for five years and may be renewed for additional five year terms upon the filing of an application fee and evidence of continued use in the form of a statement and specimen. § 482-25, Haw. Rev. Stat.

Registrations under the new law may be canceled by the DCCA at the registrant's request or upon expiration of the registration. Otherwise, challenges to registrations on substantive grounds must be made to "a court of competent jurisdiction"¹⁰⁹, which may cancel the registration for the following grounds:

- (1) the mark has been abandoned;
- (2) registrant is not the owner of the mark (*e.g.*, another has better rights in the mark);
- (3) the registration was improperly granted;
- (4) the registration was obtained fraudulently;
- (5) the mark has become generic for the goods or services claimed; and
- (6) the mark is likely to cause confusion with a mark earlier registered with the USPTO.

law using the old standard will, in all likelihood, result in numerous registrations that, by law, should not have been registered, it is hoped BREG is reconsidering its position in this regard, if not immediately, then in the not too distant future.

¹⁰⁹ Although as enacted, the Act only allows third party challenges to trademark and service mark registrations (as opposed to trade name registrations) to be made by filing an action in "a court of competent jurisdiction", the administration is expected to introduce an amendment to a pending housekeeping bill during the current legislative session which would amend § 482-28, and add new section § 482-28.5, to allow third party challenges to also be brought in the form of a petition to the DCCA director.

§ 482-28, Haw, Rev. Stat. Courts having competent jurisdiction would include all state Circuit Courts, and also federal district courts in cases, for example, where the state law claim was appended to a Lanham Act claim.

The Hawaii law, like its federal counterpart, provides a cause of action for dilution of a famous mark. § 482-32, Haw. Rev. Stat. Remedies for infringement include injunctive relief and damages of up to three times lost profits, costs and attorneys fees, with the awards of enhanced damages and attorneys fees being reserved for cases of knowing or bad faith infringement. § 482-33, HRS. The new law specifically provides for the preservation and recognition of rights arising under the common law. § 482-35, HRS.

3. Unfair Competition Under Hawaii Law. Because Chapter 482, Haw. Rev. Stat., as presently constituted, fails to provide any meaningful civil remedy for the infringement of marks registered thereunder, Hawaii-based trademark holders have had to look elsewhere in their efforts to be made whole. Until recently there were two state statutes seeking to regulate unfair competition that came in use for this purpose.

One of these is Chapter 481A, entitled Uniform Deceptive Trade Practices Act, which provides in relevant part in § 481A-3 as follows:

Deceptive trade practices. (a) A person engages in a deceptive trade practice when, in the course of the person's business, vocation, or occupation, the person:

- (1) Passes off goods or services as those of another;
- (2) Causes likelihood of confusion or of misunderstanding as to the source, sponsorship, approval, or certification of goods or services;
- (3) Causes likelihood of confusion or of misunderstanding as to affiliation, connection or association with, or certification by, another;

(4) Uses deceptive representations or designations of geographic origin in connection with good or services;

(5) Represents that goods or services have sponsorship, approval, characteristics, ingredients, uses, benefits, or qualities that they do not have or that a person has a sponsorship, approval, status, affiliation, or connection that the person does not have;

* * *

(7) Represents that goods or services are of a particular . . . style or model, if they are of another;

* * *

(12) Engages in other conduct which similarly creates a likelihood of confusion or misunderstanding.

(b) In order to prevail in an action under this chapter, a complainant need not prove actual competition between the parties or actual confusion or misunderstanding.

(c) This section does not affect unfair trade practices otherwise actionable at common law or under other statutes of this State.

Remedies provided under § 481A-4 of the uniform statute include injunctive relief, but only to the extent necessary to prevent confusion or misunderstanding. If the plaintiff brought the action knowing it to be groundless, or if defendant engaged in the deceptive practice willfully, knowing it to be deceptive, attorneys' fees may be awarded. The statute does not provide for monetary damages, however, and appears to contemplate that damages will be awarded under some different cause.

Sections 481-3(a)(1) through(3) and (5) of the statute recite acts that constitute trademark infringement and unfair competition concerning source identifiers, which trademarks are. Plaintiffs seeking to enjoin and collect damages for infringement of state registered trademarks generally include a Chapter 481A claim, Carrington v. Sears, Roebuck & Co., 5 Haw. App. 194, 683 P.2d 1220 (1984), as do plaintiffs relying upon

trademark rights acquired pursuant to common law, Star Markets, Ltd. v. Texaco, Inc., 945 F.Supp. 1344 (D. Haw. 1996); Kukui Nuts of Hawaii, Inc. v. Baird & Co., 7 Haw. App. 598, 789 P.2d 501 (1990); Hawaii Calls, Ltd. v. Perfumes Polynesia, Ltd., 399 F.Supp. 604 (D. Haw. 1975). Section 481-3 claims continue to be appropriate and useful to avenge Hawaii-based victims of trademark infringement notwithstanding the new remedies that are becoming available July 1, 2003 pursuant to Hawaii's new trademark law.

The other state unfair competition statute that had been useful to claimants seeking a remedy for infringement of their marks was § 480-2 of Chapter 480 entitled Monopolies; Restraint of Trade. That section provides as follows:

Unfair competition, practices, declared unlawful. (a) Unfair methods of competition and unfair or deceptive acts or practices in the conduct of any trade or commerce are unlawful.

(a) In construing this section, the courts . . . shall give due consideration to the rules, regulations, and decisions of the Federal Trade Commission and the federal constructions interpreting section 5(a)(1) of the Federal Trade Commission Act

Civil remedies for violation of § 480-2 are provided in § 480-13, HRS to include injunction, statutory damages of \$1000 or threefold actual damages, whichever is greater, and attorneys' fees.

Whereas pursuant to § 480-3, HRS, only consumers, the attorney general and the office of consumer protection have standing to bring an action based upon unfair and deceptive acts or practices, business competitors or would-be competitors were thought to have had standing to bring § 480-2 actions based upon "unfair methods of competition". For years Hawaii courts, both federal and state, had readily entertained § 480-2 actions based upon the infringement of trademark rights accrued under State law. Star Markets,

Ltd. v. Texaco, Inc., 945 F. Supp. 1344 (D. Haw. 1996); Kukui Nuts of Hawaii, Inc. v. Baird & Co., 7 Haw. App. 598, 789 P.2d 501 (1990).

Then in 1999, the Hawaii Supreme Court held that no private cause of action for a § 480-2 claim of “unfair methods of competition” existed. Robert’s Hawaii School Bus, Inc. v. Laupahoehoe Transportation Company, Inc., 91 Haw. 224, 982 P.2d. 853 (1999).

We now interpret the legislative history to the 1965 and 1987 amendments not to recognize or create a private claim for relief under HRS § 480-13 for unfair methods of competition in violation of HRS § 480-2. This interpretation in no way limits consumer claims for unfair or deceptive acts or practices under HRS § 480-2 or, inter alia, private claims for violations of HRS §§ 480-4 [price fixing] or 480-9 [monopolization].

91 Haw. at 251, 982 P.2d at 880. Although the *Robert’s* case involved the allegation of unfair competition and monopolization in the context of a bid challenge for school bus services, and no allegations involving unfair competition by trademark infringement or passing off where there involved, the rule set down in *Robert’s* precludes owners of marks from using § 480-2 to seek remedies for infringement of their marks.

Robert’s left business owners without a private remedy for section 480-2 styled unfair competition, but only temporarily. In 2002, the Hawaii Legislature overruled, so to speak, the Hawaii Supreme Court’s construction of the § 480-2 standing requirement. Act 229, Haw. Session Laws, amended § 480-2 to add a new subsection (e) that reads: “Any person may bring an action based on unfair methods of competition declared unlawful by this section.

Hawaii-based owners of marks used in either interstate or international commerce can seek damages through the institution of an unfair competition action in either State or federal court pursuant to § 43(a) of the Lanham Act. Star Markets, Ltd. v. Texaco, Inc., 950 F.Supp. 1030 (D. Haw. 1996). Actions at common law for trademark infringement,

passing off, and misappropriation of trademarks and/or goodwill, that would entitle the plaintiff to claim either the profits lost or the gains unjustly retained by the infringer are also likely cognizable under Hawaii law. *See, e.g., Famolare, Inc. v. Melville Corp.*, 472 F.Supp. 738 (D. Haw. 1979) (wherein the court appears to have entertained common law allegations of trademark infringement, palming off and misappropriation).

D. Trademark Litigation

1. Federal or State Court

A mark that is used entirely within the State, whose use has no significant impact on either interstate or international commerce, will not be entitled to the protection of the Lanham Act. In such cases, actions for infringement and unfair competition must be based on State law and filed in State court. Such actions will likely include statutory claims under Section 480-2 for unfair competition, Chapter 481A for deceptive trade practices, and Chapter 482 for infringement of a mark registered pursuant to that chapter, and common law claims for trademark infringement, misappropriation of goodwill and passing off. As of July 1, 2003, actions for infringement of registered marks brought pursuant to Chapter 482 will offer the possibility of an award treble damages and attorneys fees.¹¹⁰ If the mark owner's sole complaint is that another has registered the same or confusingly similar mark with the DCCA, then the owner have the option of filing a petition for revocation of the registration pursuant to § 482-28, HRS.¹¹¹

¹¹⁰ § 482-22, Haw. Rev. Stat. Also, since common law infringement and misappropriation claims are based upon tort, there would be the possibility of obtaining punitive damages under state law if the conduct was demonstrated to have been intentional or reckless.

¹¹¹ For a discussion regarding the current limitation on third party petitions under Hawaii's new trademark law, see footnote 109 *supra*.

If a mark is registered with the USPTO, or if it has not been but it is used in interstate or international commerce, or its use can be established to have a significant impact on such commerce, than a claim for infringement, dilution or unfair competition can be taken under the Lanham Act. Like Hawaii's new trademark law, Lanham Act actions offer the possibility of an award of treble damages and attorney's fees. Lanham Act claims can be brought in either federal or state court, and if brought in federal court, the court can entertain the state causes as pendent or ancillary to the Lanham Act claim. Because federal court judges have considerably more experience with trademark and unfair competition cases, it is generally preferable to bring such cases in federal court so long as a sufficient jurisdictional bases for the case can be established.

2. The Likelihood of Confusion

Trademark infringement occurs when the use of a mark is "likely to confuse" the relevant public into thinking that the goods or services associated with the mark originate from the same source as those of another person's mark. Wrongful intent is not required in order for a finding of infringement, although such intent may be evidence of infringement and may also affect the amount of damages that may be awarded in an infringement lawsuit. In this regard, trademark infringement may be seen as a kind of strict liability offense. This may, at first blush, seem harsh, but trademark law recognizes that society's interest in protecting the marketplace from confusion as to source is sufficient to create liability notwithstanding the lack of an infringer's intentional deception.

In order to prevail in a trademark infringement action, a litigant must prove, by a preponderance of the evidence, that use of the allegedly infringing mark will create a

likelihood of confusion, mistake or deception in the minds of the relevant market. A multitude of considerations are used in determining whether there is a likelihood of confusion, but courts will typically boil the multitude down to a number between eight and thirteen.

The Ninth Circuit Court of Appeals recently set forth an eight factor test for determining the likelihood of confusion: (1) strength of the trademark upon which infringement is claimed; (2) proximity of the parties' goods; (3) similarity of the marks; (4) evidence of actual confusion; (5) marketing channels used; (6) likely degree of purchaser care; (7) defendant's intent in selecting the mark; and (8) the likelihood of expansion of the product lines.

Surf Line Hawaii, Ltd. v. Ahakueolo, 13 U.S.P.Q.2d 1975 (D. Haw. 1989), *citing*

Accuride Int'l, Inc. v. Accuride Corp., 871 F.2d 1531, 1534 (9th Cir. 1989). *Accord*

Hawaii Calls, Ltd. v. Perfumes Polynesia, Ltd., 399 F.Supp. 604, 608 (D. Haw. 1975).¹¹²

¹¹² By way of comparison, the USPTO, in the context of *ex parte* examinations of trademark applications, typically relies upon the elaboration of the 13 factors set down in *In re E. I. du Pont de Nemours & Co.*, 476 F.2d 1357, 1360-62 (C.C.P.A. 1973) which are:

- The similarity or dissimilarity of the marks in their entireties as to appearance, sound, connotation and commercial impression.
- The similarity or dissimilarity and nature of the goods or services as described in an application or registration or in connection with which a prior mark is in use.
- The similarity or dissimilarity of established, likely-to-continue trade channels.
- The conditions under which and buyers to whom sales are made, i.e. "impulse" vs. careful, sophisticated purchasing.
- The fame of the prior mark (sales, advertising, length of use).
- The number and nature of similar marks in use on similar goods.
- The nature and extent of any actual confusion.
- The length of time during and the conditions under which there has been concurrent use without evidence of actual confusion.
- The variety of goods on which a mark is or is not used (house mark, "family" mark, product mark).
- The market interface between the applicant and the owner of a prior mark.
- The extent to which the applicant has a right to exclude others from use of its mark on its goods.
- The extent of potential confusion, i.e., whether de minimis or substantial.

Any other established fact probative of the effect of use.

Depending on the facts of a particular case, some of these factors will be accorded more weight than others.

“Likelihood of confusion” is also the standard that has been adopted by the Hawaii courts when determining claims for state trademark infringement under HRS Chapter 482,¹¹³ and for deceptive trade practices under HRS Chapter 481A. Carrington v. Sears, Roebuck & Co., 5 Haw. App. 194, 198-99, 683 P.2d 1220, 1225-26 (1984). Pursuant to *Carrington*, the DCCA’s hearing officers¹¹⁴ apply the standard to petitions for revocation of trademark registrations filed pursuant to § 482-8, HRS. *In re “Kona’s Something Special”*, TN-84-4 (DCCA order of August 28, 1984).

3. Infringement and Unfair Competition Claims Under the Lanham Act. Section 32(1) of the Lanham Act provides protection for federally registered marks and proscribes the use of any reproduction, counterfeit, copy or colorable imitation of such a mark.

Section 43(a) of the Lanham Act is much broader in scope in that it proscribes conduct that causes competitive injury -- specifically: 1) the use of any mark in commerce that is likely to cause confusion as to the source, sponsorship or affiliation of goods or services, whether or not the mark is federally registered; and 2) any false or

¹¹³ Although trademark and service mark applications under current law are processed in accordance with the narrower “substantially identical” standard set forth in § 482-3, Haw. Rev. Stat., the broader “likelihood of confusion” standard is applied, even under current law, in infringement actions brought by owners of state registered marks. § 482-4, Haw. Rev. Stat. In comparison, Hawaii’s new trademark law mandates application of the “likelihood of confusion” standard for both examination and infringement, §§ 482-21 and 482-31, Haw. Rev. Stat., although BREG has indicated its reluctance to immediately adopt the broader standard when examining applications for registration under the new law. See discussion of implementation of examination standard under the new law in footnote 108, *supra*.

¹¹⁴ Whether or not DCCA’s hearing officers will be empowered to hear such petitions under Hawaii’s new trademark act will depend upon the fate of a housekeeping amendment presently being contemplated by the administration in the context of Hawaii’s 2003 legislative session. See discussion in footnote 109 *supra*.

misleading statement in commercial advertising that misrepresents the nature, characteristics, qualities or geographic origin of the advertised or competitive goods or services.

In order to state a claim under Section 32 of the Lanham Act, a plaintiff must be the owner of a federally registered mark, as opposed to a mark that has been applied for and is pending, Marvel Products, Inc. v. Fantastics, Inc., 296 F.Supp. 783, 784 n.1 (D. Conn. 1968), or be the exclusive licensee or distributor of a federally registered mark. The alleged infringing conduct must have taken place in interstate commerce or have had a substantial effect on interstate commerce.

Activities taking place beyond the territorial limits of the United States, but having a substantial effect on interstate commerce, can be made to come within the Lanham Act's scope. Steele v. Bulova Watch Co., 344 U.S. 280 (1952); Ocean Garden, Inc. v. Marktrade Co., 953 F.2d 500 (9th Cir. 1991). These decisions effectively extend subject matter jurisdiction under the Lanham Act to deceptive practices perpetrated in foreign countries.

In order to state a claim under § 43(a) of the Lanham Act, the mark in question need not be registered nor need the plaintiff be the owner or exclusive licensee of the mark so long as he/she has a commercial interest in the mark. Accordingly, sellers of trademarked merchandise, *D.M., an Antique Corp. v. Royal Saxe Corp.*, 311 F.Supp. 1261, 1268 (SDNY 1969), and nonexclusive licensees have been granted standing under § 43(a), Qualbaug Robber Co. v. Fabriano Shoe Co., 567 F.2d 154, 160 (1st Cir. 1977). While it is not necessary to allege that the defendant's conduct was intentionally fraudulent in order to establish liability, § 35(a) of the Act allows an award of attorneys'

fees in "exceptional cases." If intentionally wrongful conduct is proven, attorneys' fees are usually awarded. Getty Petroleum Corp. v. Bartco Petroleum Corp., 858 F.2d 103, 113-14 (2d Cir. 1988).

4. Trademark Dilution Claims

Trademark law is engineered to prevent activities that are likely to confuse consumers in their buying decisions. What if a third party trades on the notoriety of your mark but does so in a manner that does not result in confusion as to source? While this may not amount to trademark infringement, it may constitute trademark dilution.

Dilution means the lessening of the capacity of a famous mark to identify and distinguish goods or services regardless of whether there is competition or likelihood of confusion, mistake or deception.

Beginning in the late 1940s, various states enacted anti-dilution statutes that were intended to create a cause of action where the identity or reputation of a trade name or mark was whittled down through an unauthorized party's use. These statutes, by their express terms, provided protection against the "dilution" of distinctive marks, notwithstanding the absence of a likelihood of confusion or competition between the parties. Unfortunately, many courts did not take these statutes at face value and refused to enforce the letter of the law unless resulting confusion was found.

The tide began to turn in 1977 when the New York Court of Appeals held that New York's anti-dilution statute did not require a finding of likelihood of confusion. Allied Maintenance Corp. v. Allied Mechanical Trades, Inc., 42 N.Y.2d 538, 543, 369 N.E.2d 1162, 399 N.Y.S.2d 628 (1977). Soon after the court's decision in *Allied*, the federal courts started to hold that "injury to a recognized trade name, rather than damage

arising from confusion among consumers, [was] at the heart of the wrong under the dilution statutes." Dallas Cowboys Cheerleaders, Inc. v. Pussy Cat Cinema, Ltd, 604 F.2d 200, 205 n.8 (2d Cir. 1979). Unfortunately, a lack of consensus on the subject proved meddlesome to companies doing business in interstate commerce where uniform treatment and guidance is essential. This changed on January 16, 1996, when President Clinton signed into law the Federal Trademark Dilution Act of 1995, P.L. 104-98 (109 Stat. 985). Codified as § 43(c) of the Lanham Act, the law creates a new federal cause of action for owners of "famous" trademarks when a third party's commercial use of a mark acts to dilute the mark's distinctive qualities.

The Dilution Act provides owners of famous marks with a right to obtain injunctive relief and the destruction of the diluting goods and materials, even if the owner cannot show a likelihood of confusion, mistake or deception. If a violator willfully trades on the trademark owner's reputation or willfully causes dilution, the court also has discretion to award the diluted owner the violator's profits, the actual damages suffered, treble damages and attorneys' fees and costs of suit.

The Act sets forth a nonexclusive list of the following eight criteria that a court should consider in determining whether a mark is famous:

- 1) the degree of inherent or acquired distinctiveness of the mark;
- 2) the duration and extent of use of the mark;
- 3) the duration and extent of advertising and publicity of the mark;
- 4) the geographical area in which the mark is used;
- 5) the channels of trade for the goods or services with which the mark is used;
- 6) the fame of the mark in the owner's and the alleged diluter's trading areas;
- 7) the nature and extent of use of similar marks by third parties; and

8) whether the mark is federally registered and whether it was registered under the 1881 or 1905 Act.

In Star Markets, Ltd. v. Texaco, Inc., 950 F.Supp. 1030 (D. Haw. 1996), the court applied this eight factor test to find the Honolulu-based Star Markets not sufficiently famous within the meaning of the Act to be entitled to protection against dilution.

There are two varieties of trademark dilution, dilution by blurring and dilution by tarnishment. Put simply, dilution by blurring means that, where once you only thought of one source of goods and services for a given mark, two or more sources for goods and services may come to mind when you hear or see a given mark. In Mead Data Central, Inc. v. Toyota Motors Sales, U.S.A., Inc., 875 F.2d 1026 (2d Cir. 1989), a case decided under New York's dilution statute, it was determined that the mark Lexis for legal research services was not sufficiently distinctive in the minds of the general public (as opposed to the legal population) to be subject to dilution by Toyota's Lexus line of automobiles. Dilution by tarnishment is that a once positive mental association of a mark will become degraded, or tarnished. In The Coca-Cola Co. v. Gemini Rising, Inc., 346 F.Supp. 1183 (EDNY 1972), defendant's use of the mark Enjoy Cocaine in the classic Coca-Cola font and script was enjoined as dilution by tarnishment under New York's dilution statute. *Accord* Dallas Cowboys Cheerleaders, Inc. v. Pussy Cat Cinema, Ltd., *supra*, 604 F.2d 200 (use of simulated Dallas Cowboys Cheerleader uniforms in the pornographic film "Debbie Does Dallas" starring a "Dallas Cowgirl Cheeleader" held not fair use but tarnishment).

Earlier this year the U.S. Supreme Court took the opportunity to construe, and in the view of many narrow, the reach of the Federal Trademark Dilution Act. In Moseley v. V Secret Catalogue, Inc., 2003 WL 716807 (March 4, 2003), the justices unanimously

held, in the context of an action by owners of the trademark “Victoria Secrets” for lingerie against an adult novelty store named “Victor’s Little Secret,” that in order to establish a case of dilution, the owner of a famous mark needed to establish a showing of “actual dilution” and not merely the “likelihood of dilution”. Evidence of a lessening of the capacity of the mark to identify and distinguish good or services through objective proof of actual injury to the economic value of the mark is now required under the federal Act. The mere fact that consumers will mentally associate the junior user’s mark with a famous mark is insufficient to establish actionable dilution because, the justices reasoned, such mental association will not necessarily reduce the capacity of a famous mark to identify the goods of its owner. “‘Blurring’ is not a necessary consequence of mental association. (Nor, for that matter, is ‘tarnishing.’)” *Id.*, slip opinion at 7. Notwithstanding the implementation of an objective test based upon economic impact, the Court clarified, in dicta, that economic consequences of dilution, such as loss of sales or profits, need not be proven in order to make out a case of dilution. *Ibid.*¹¹⁵

Because Hawaii’s new trademark law, like the federal law, requires on its face actual dilution as opposed to a likelihood of dilution, it is probably that Hawaii’s law will be construed consistently with *Moseley*. § 482-32, Haw. Rev. Stat.

The Act exempts fair use of a famous mark in comparative advertising to identify the competing goods, non-commercial use of a mark and all forms of news reporting and news commentary.

¹¹⁵ The *Moseley* decision has left legal scholars and trademark specialists wondering how, exactly, to adduce objective proof of dilution without proving lost sales and profits. While the Court makes a fleeting reference to consumer surveys, the Court also acknowledges that such evidence is expensive and often unreliable. Slip opinion at 8. It follows that owners of famous marks will now not be able to enjoin the use of a diluting mark until some palpable harm has already taken place.

5. **Defenses to Infringement**

a. **Statute of Limitations.** There is no federal statute of limitations for actions brought under the Lanham Act. However, the courts will sometimes look to the relevant forum state statute that best effectuates the federal policy at issue. Official Airline Guides v. Goss, 6 F.3d 1385 (9th Cir. 1993) (2 year fraud statute of limitations selected for a case involving fraudulent registration). A continuing infringement, like a continuing tort, is always actionable although retrospective damages may only be recoverable for a period equal to the applicable statute of limitations.

b. **Laches.** Generally the doctrine of laches is invoked, rather than the analogous statute of limitations, as a defense where there has been a delay in enforcement. *Restatement (Third) of Unfair Competition Law*, § 31, comment a (1995); Clamp Mfg. Co. v. Enco Mfg. Co., 870 F.2d 512 (9th Cir. 1980), *cert. denied*, 493 U.S. 872 (1989).

c. **Unclean Hands.** Unclean hands may be a defense to trademark infringement under both § 32 of the Lanham Act (regarding registered marks) and under § 43(a) of the Lanham Act regarding unregistered marks. *Restatement (Third), supra*, § 32.

d. **Fair Use.** If a mark is used in a manner that is not likely to cause confusion, such use is "fair." Transgo, Inc. v. Ajac Transmission Parts Corp., 911 F.2d 363 n.2 (9th Cir. 1990) (fair use cannot be use that is likely to cause confusion).

Section 28 of the *Restatement (Third) of Unfair Competition* states that:

In an action for infringement of a trademark, trade name, collective mark, or certification mark, it is defense that the term used by the actor is descriptive or geographically descriptive of the actor's goods, services, or business, or is the personal name of the actor or a person connected with

the actor, and the actor has used the term fairly and in good faith solely to describe the actor's goods, services, or business or to indicate a connection with the named person.

Fair use includes use in comparative advertising, R.G. Smith v. Chanel, Inc., 402 F.2d 562 (9th Cir. 1968), and use to identify the product, as for example when a recycled product is being resold, Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947).

e. **Parody.** Use of a mark as parody will be protected under the First Amendment if the use is sufficiently creative and not commercial exploitation. Anheusser-Bush, Inc. v. L & L Wings, Inc., 962 F.2d 316 (4th Cir., 1992) (use of the phrase “This Beach is for You!” together with a picture of a Budweiser beer can with the words “Myrtle Beach, King of Beaches” across its front, on souvenir T-shirts, held parody and not infringement).

f. **Consent.** Actual consent to use by way of an assignment, license or other statement of use provides a defense to an infringement claim. Implied consent may be inferred from conduct. *Restatement (Third), supra* § 29.

g. **Abandonment.** If a mark is no longer used as an identifier, i.e., it has become generic, or if the mark has lost its significance as a result of cessation of use or by other acts or omissions by the owner, the mark will be deemed abandoned. Major League Baseball Properties, Inc. v. Sed Non Olet Denarius, Ltd., 817 F. Supp. 1103 (S.D.N.Y. 1993), *vacated pursuant to settlement*, 859 F.Supp. 80 (S.D.N.Y. 1994); Hawaii Calls, Ltd. v. Perfumes Polynesia, Ltd., 399 F.Supp. 604, 608 (D. Haw. 1975) (service mark Hawaii Calls had lost its distinctiveness and no longer held any secondary meaning); Gear v. Kenyon, 10 Haw. 162, 165 (1895) (newspaper name changes demonstrated deliberate, and immediate, abandonment of the mark).

6. Defenses to Alleged Infringement of Incontestable Marks

By statute, incontestable marks are subject to nine enumerated defenses, to wit the defenses that: 1) the registration was obtained by fraud; 2) the mark is abandoned; 3) the mark was used with permission; 4) the mark is used fairly to describe the alleged infringer's goods or services; 5) the mark was, under certain circumstances, innocently used without knowledge of registrant's use; 6) the mark was used and registered (under state law) prior to registration under federal law (this defense only applies to the area where the mark was used); 7) the mark has been used in violation of the anti-trust laws; 8) the mark is functional; or 9) use of the mark is permitted under equitable principles such as laches, estoppel and acquiescence. Lanham Act, § 33(b).

E. International Trademark Law and the Madrid Protocol

Traditionally, trademarks have been pursued on a country by country basis. There were certain international treaties and conventions, most notably the Paris Convention (which also concerns patents and unfair competition), that affected international filings, but most filings have had to proceed on a country by country basis, with local counsel involved in each country.

On October 17, 2002, the Madrid Protocol passed the U.S. Senate on advice and consent. Implementing legislation was signed into law by the President on November 2, 2002. Provided the instrument of accession is deposited on time, U.S. based applicants should be in a position to begin filing applications that make use of the Protocol beginning as early as November 2003.

The Madrid Protocol will allow filing in multiple countries based upon one application, in a single language, filed in the applicant's country of origin. Approximately

70 countries are currently parties to the Madrid Protocol, and other countries may be expected to join now that the United States is a party. Once implemented by the United States, an applicant in the United States will be able to file an application with the U.S. Patent and Trademark Office, and to also designate for trademark protection any other country that is also party to the Protocol. Similarly, foreign applicants will be able to add the United States as a designated country.

The Madrid Protocol will not create a single unified right in all countries (or any right at all, in itself), but will simply allow a central filing system that will facilitate international filings. It allows one application, in a single language (the basic application) to be filed with other countries designated. The application will be sent by the USPTO to the International Bureau within two months of the filing of the basic application (the international application). The international application will then be examined by the trademark authority in each designated country, according to that country's laws and normal procedures. The designated country's trademark authority will have 18 months in which to notify the International Bureau of a refusal to register. If a refusal is issued the applicant will need to secure local counsel to prosecute the application and to respond to the refusal to register.

The process will allow a single application fee, paid in a single currency. There will be one registration, one registration number, and one renewal date for all countries. The registration will have a ten year term, with ten year renewals. The standard fee structure includes a "basic" fee for the International Bureau of about \$430, a "complementary" fee of about \$50 for each country designated, and a "supplementary" fee for each class of goods or services beyond three of about \$50. Renewal of the ten year

term and other changes to registration can be accomplished in a single step with a single fee of about \$100. This is a significant savings in terms of time and effort for maintenance of a trademark.

If the international application is not refused by the national office of a designated country, the protection accorded to the registered mark will be the same as if the mark had been registered directly with the national office. It generally will not be necessary to secure national counsel unless there is an official action in the designated country that will require legal counsel to respond.

There are some disadvantages to the Protocol. During the first five years, the international registration depends upon the home or original application. If it is cancelled, denied, or withdrawn, that action would automatically extend to all designated countries (although it would still be possible to convert each designated country to a national filing if done within three months). Further, broader protection may be available by filing in each country individually. Countries vary in the rigor with which they apply and enforce standards regarding descriptiveness and the specificity required in the identification of goods and services. Also, no amendments of the mark are allowed during prosecution. But the advantages of a central method of international filing will generally outweigh these disadvantages.

Additional information regarding the Madrid Protocols and the progress of their implementation vis-à-vis U. S. applications and the USPTO can be obtained from INTA's website at <http://www.inta.org/madrid/index.shtml>.

IV. TRADE SECRETS

A. State Law Concerning Trade Secrets

1. Identifying the Trade Secret. "Trade secrets" are defined by the Uniform Trade Secrets Act ("UTSA")¹¹⁶ as:

[I]nformation, including a formula, pattern, compilation, program, 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.

Haw. Rev. Stat. Ann. § 482B-2 (1995).

In addition to the definition provided by the UTSA, courts consider a variety of factors when determining whether information constitutes a trade secret. Such factors include (1) the extent to which the information is known by both insiders and outsiders of the business; (2) the efforts made to protect the disclosure of the trade secret; (3) the commercial value and development costs of the information; and (4) the ability of others to acquire and duplicate the information.¹¹⁷ Source codes, object codes, design documentation, technical information and user manuals are all eligible for trade secret protection.¹¹⁸ Computer software and computer programming can also qualify as trade secrets.¹¹⁹ Finally, Internet retailing knowledge has been found to be a trade secret.¹²⁰

¹¹⁶ The Hawaii Legislature adopted the UTSA in 1989 as Chapter 482B of the Hawaii Revised Statutes.

¹¹⁷ See e.g., Data Gen. Corp. v. Grumman Sys. Support Corp., 825 F. Supp. 340 (D. Miss. 1993).

¹¹⁸ Vermont Microsystems v. Autodesk, Inc. 88 F.3d 142 (1996).

¹¹⁹ MAI Sys. Corp. v. Peak Computer, 991 F.2d 511 (9th Cir. 1993), cert. dismissed, 114 S. Ct. 671 (1994).

Although the UTSA requires courts to preserve the secrecy of any alleged trade secrets through reasonable means, one case has held that the availability of documents as part of court records terminated such document's trade secret status. Specifically, in Religious Tech. Ctr. v. Lerma, 908 F. Supp. 1362 (E.D. Va. 1995), the "confidential" documents in dispute were recorded in an affidavit filed with the court for a total of twenty-eight months. Although, the plaintiff went through "extraordinary" efforts to control access to those documents, "the file was nevertheless an open file, available to the public." Id. at 1368. The District Court thus held that since any person could obtain a copy of the affidavit directly from the clerk of the court, such information fell into the public domain and thus could not be deemed a trade secret.

2. Missappropriation of Trade Secrets. Companies may obtain injunctions to prevent the actual or threatened misappropriation of trade secrets.¹²¹

¹²⁰ New England Circuit Sales v. Randall, Civil Action No. 96-10840-EFH (D.C. Mass. June 4, 1996).

¹²¹ Misappropriation means:

(1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(2) Disclosure or use of a trade secret of another without express or implied consent by a person who:

(A) Used improper means to acquire knowledge of the trade secret; or

(B) At the time of disclosure or use, knew or had reason to know that the person's knowledge of the trade secret was:

(i) Derived from or through a person who had utilized improper means to acquire it;

(ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

Injunctions obtained to prevent disclosure of trade secrets, must be terminated once the trade secret has ceased to exist. They may continue, however, for an additional reasonable period of time in order to "eliminate commercial advantage that otherwise would be derived from the misappropriation."¹²²

Trade secret owners can also recover damages for the misappropriation of its protected information. Damages can include both the actual loss caused by the misappropriation and any unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. If the misappropriation was willful or malicious, the trade secret owner may be entitled to exemplary damages twice the amount otherwise normally recoverable.¹²³

In "exceptional circumstances" an employer may obtain an injunction that conditions future use of the trade secrets upon payment of a reasonable royalty, but for no longer than the period of time for which the use could have been prohibited. What constitutes exceptional circumstances is somewhat nebulous; however, it includes "a material prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable." The party being enjoined bears the burden of proving exceptional circumstances.¹²⁴

(C) Before a material change of the person's position, knew or has reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

Haw. Rev. Stat. Ann. § 482B-2.

¹²² Haw. Rev. Stat. Ann. § 482B-3.

¹²³ Id. § 482B-4.

¹²⁴ Id. § 482B-3(b).

B. The Federal Law

The Economic Espionage Act of 1996 ("EEA")¹²⁵ became law on October 11, 1996. The EEA imposes criminal penalties for the theft of proprietary business information. Specifically, the law makes it a crime to misappropriate intangible trade secrets. The term trade secret is defined to include "all forms and types of financial, business, scientific, technical, economic or engineering information," provided that the owner has taken "reasonable measures" to keep such information secret, and "the information derives independent economic value, actual or potential, from not being generally known to, and not readily ascertainable through proper means by, the public."¹²⁶ This definition of a trade secret is similar to that contained in the UTSA. Violators of the EEA face imprisonment for up to 10 years, a fine of up to \$5,000,000 and forfeiture of any proceeds received as a result of the trade secret theft.¹²⁷ Conduct outside the United States is covered if the perpetrator is a U.S. citizen or a company licensed to do business in the U.S., or if any part of the crime was committed in the U.S.

C. How to Keep a Secret

Companies should implement procedures that every employee must follow to ensure that their trade secrets remain confidential.

1. Non-Disclosure Agreements. All employees who may be exposed to company trade secrets should be required to execute non-disclosure agreements. Such agreements should stipulate three important provisions. First, that the

¹²⁵ Codified at 18 U.S.C. §§ 1831-39.

¹²⁶ 18 U.S.C. § 1839(3).

¹²⁷ 18 U.S.C. §§ 1832, 1834.

employee's obligation to not disclose trade secrets continue indefinitely, and certainly well after the employment or business relationship has terminated. Second, employees must return all protected information to the company prior to their termination of employment. Third, that disclosure of the trade secrets or confidential information will result in immediate and irreparable harm to the company. The latter provision allows the company to later seek injunctive relief against the ex-employee from disclosing any trade secrets.

Companies should notify the future employers of ex-employees who possess trade secret information that such employees have executed non-disclosure agreements. The new employer should also be told not to assign the ex-employee projects that could result in the disclosure or transfer of that information. Non-disclosure agreements should not be limited to just the employer and employee, in some cases, the company may want to have its own customers and vendors execute them as well.

2. **Internal Security Measures.** In addition to having its employees execute non-disclosure agreements, a company should routinely impose the following internal controls to maintain the secrecy of its trade secrets:

- (1) Mark sensitive documents as "confidential."
- (2) Use copy protection and imbedded codes to track copies.
- (3) Secure all computers with a password.
- (4) Consider securing trade secrets in a vault.
- (5) Remind employees of the sensitive and confidential nature of the information.
- (6) Establish guidelines as to what kind of information/documents may or may not be posted on company websites and/or transmitted by employees via the Internet.

- (7) Restrict who and how many employees may have company access to the Internet.
- (8) Routinely monitor the company website to check for unauthorized transmissions and postings.
- (9) Use counting and downloading devices to establish if unauthorized documents have been viewed and/or downloaded.
- (10) Use e-mail protocols and encryption technology that ensure confidentiality of e-mail transmissions.

V. RIGHTS OF PRIVACY AND PUBLICITY

A. Overview of Rights of Privacy and Publicity Law

Truth is a defense to defamation, but truthful statements can still invade one's privacy and cause injury. A person's right to control the use of his or her name or likeness is, in some ways, similar in effect to the right of a company to control the use of its trademarks. For example, the Hawaii Supreme Court has noted: "A radio personality's name may have substantial commercial value for advertising purposes which exists apart from his services as an announcer. The exclusive use by the first appropriator of a name with this value will be protected." Earle E. Aku v. Hal Lewis, et al., 52 Haw. 366 (1970). The origin of these rights is quite different, however. Trademark law is generally based upon the need to protect the consumer from confusion in the marketplace. Rights of privacy and publicity are based on the rights of the individual.

1. Rights of Privacy

Traditionally, there have been four separate Rights of Privacy: the right to be free from intrusive invasion of privacy, the right to prevent public disclosure of private facts, the right not to be portrayed in a false light, and the right to prevent an invasion of your privacy by appropriation of your identity for commercial purposes. The last of the four is similar to the Right of Publicity, which we will discuss below.

The right of privacy was first discussed in the famous 1890 law review article "The Right to Privacy" by Samuel D. Warren and Louis D. Brandeis. 4 Harv.L.Rev. 193 (1890). In 1921, New York enacted a statute making it a misdemeanor and a tort to use the name or likeness of a person for "advertising purposes or for the purposes of trade" without his written consent. See Prosser and Keeton on Torts , § 117 (5th Ed. 1984).

They argued that the tort law should recognize a right to prevent truthful but intrusive and embarrassing disclosures by the press. In the 1930s, it was recognized in the First Restatement of Torts. See Restatement (Second) Torts §652A (1977). In 1960, Professor Prosser categorized the growing law of privacy into the four distinct types of torts: (1) intrusion upon the plaintiff's physical solitude, (2) public disclosure of embarrassing private facts, (3) placing the plaintiff in a false light in the public eye, and (4) appropriation for commercial benefit of the plaintiff's name or likeness. Prosser, "Privacy," 48 Cal. L. Rev. (1960); see, generally, McCarthy, J.T., Rights of Publicity and Privacy (Clark Boardman 1997). Following Prosser, the "Right to Privacy" is now generally categorized into these four basic kinds of invasions of privacy, "which are tied together by the common name, but otherwise have almost nothing in common except that each represents an interference with the right of the plaintiff 'to be left alone.'" Prosser and Keeton on Torts, § 117 (5th Ed. 1984).

The right to be free from an intrusive invasion of privacy protects you from eavesdropping and hidden microphones in private places. Generally, this is a common law right. There are also a variety of statutory, and even constitutional, rights to privacy. The Hawaii's Constitution, for example, recognizes an express right to privacy. See Article I, Section 6 of the Hawai'i Constitution. Additional state and federal statutory protections are discussed, *infra*, in the section on Intellectual Property and the Internet.

The right to prevent public disclosure of private facts is triggered by the disclosure of private facts that would be highly offensive to a reasonable person. This right can be violated even if the facts are true – this right protects against the public disclosure of embarrassing private facts. Not all facts are embarrassing or protected. Facts

that have been held protected include medical history or mental health records. This right can conflict with constitutional freedoms of speech and press. The courts try to balance an individual's claim to privacy with the press's need to report facts of genuine public interest.

The third right of privacy, the right not to be portrayed in a false light, often overlaps with the law of defamation. Indeed, some courts have rejected this right, holding that it adds nothing to the law of defamation. A claim for invasion of false light privacy requires a showing of publication of a false statement or representation about the plaintiff, which would place the plaintiff in a false light that would be highly offensive to a reasonable person. Public figures must show "actual malice." Defamation is very similar. It requires the publication of a false statement of fact about the plaintiff, which is understood in such a way as to tend to harm the reputation of the plaintiff. Again, public figures must show "actual malice," that is, that the defendant knew the statement was false, or acted with a reckless disregard for the truth or falsity of the statement. Private individuals can prevail simply by showing that a defendant negligently made the false statement. Truth is a defense to both defamation and false light privacy claims.

The fourth right of privacy is the right to prevent an invasion of your privacy by appropriation of your identity for commercial purposes. Violation of this right occurs when the defendant, without permission, uses some aspect of the plaintiff's identity or persona in such a way that plaintiff is identifiable from defendant's use, and defendant's use causes some damage to plaintiff's peace of mind and dignity, with resulting injury measured by plaintiff's mental or physical distress and related damages. McCarthy, Rights of Publicity and Privacy at § 5:60.

In 1968, the Hawaii Supreme Court recognized the common law cause of action for invasion of a right of privacy where the defendant uses the plaintiff's name or picture

without permission in advertising the defendant's product. Fergerstrom v. Hawaiian Ocean View Estates, 50 Haw. 374 (1968). There, the defendant used plaintiffs' name and likeness in sales brochures, advertisements in publications, and in television commercials, without the prior knowledge or consent of the plaintiffs. The court held that protection is available for appropriation of name or picture for commercial purposes. (The court also noted that it did not "now decide whether other aspects commonly included under a general right of privacy will receive similar protection.")

2. Right of Publicity

In 1953, Judge Jerome Frank first recognized an independent "right of publicity":

We think that, in addition to and independent of that right of privacy (which in New York derives from statute), a man has a right in the publicity value of his photograph, i.e., the right to grant the exclusive privilege of publishing his picture.

Haelan Laboratories, Inc. v. Topps Chewing Gum, Inc. 202 F.2d 866 (2nd Cir. 1953), cert. denied 346 U.S. 816 (1953). They are, in effect, two sides of the same coin. The Appropriation Right of Privacy states it is an invasion of your privacy for someone else to use your identity for commercial purposes without your permission. The Right of Publicity is the flip side of that, and that says only you have the right to profit commercially from the use of your identity. It is not protection against unreasonable intrusion into privacy, but rather the right of a person to control the commercial use and value of his or her identity. It is a state-law created intellectual property right. It is not merely a right of celebrities, but is a right enjoyed by every person. See, McCarthy, Rights of Publicity and Privacy Chapter 1. The Restatement (Third) of Unfair Competition now recognizes the Right of Publicity as part of the law of unfair competition. Id. at §§ 46-49.

Thus these two rights rest on different legal policies. The right of privacy protects against intrusions upon an individual's private self-esteem and dignity. This right centers on damages to the person, usually "mental distress." The right of publicity protects against commercial loss caused by appropriation of an individual's personality for commercial exploitation. This right centers on damages arising from the lost commercial value of the person's name or likeness. McCarthy, J.T., Trademarks and Unfair Competition § 28.01[3] (Clark Boardman 1997).

Both the right of privacy and the right of publicity are generally established by state law.¹²⁸ These rights may arise from court interpretation and evolution of the common law, or by statute. See McCarthy, Rights of Publicity and Privacy, Chapter 6.

¹²⁸ The Lanham Act may, in certain circumstances, provide a federal cause of action for unfair competition involving these rights, or the use of personal identity to prevent federal trademark registration. See McCarthy, Rights of Publicity and Privacy §6.16.

VI. PATENT LAW

A. **Overview of Patent Law.** Patents protect inventions including processes, products and compositions of matter. Mathematical formulae, algorithms, laws of nature and fundamental scientific principles are not protectible by patent law. An abstract business idea is not protectible apart from the specific invention(s) that bring the idea into being. In Panduit Corp. v. Stahl Bros. Fibre Works, Inc., 575 F.2d 1152, 1159 n.7 (6th Cir. 1978), the court held that:

"'Ideas' are not patentable. Only particular physical embodiments, i.e., particular 'uses' of ideas are subject to patenting. Hence, one physical embodiment of an idea may be patentable, while a second embodiment of the same idea may not, because the first embodiment met the statutory requirements of novelty, usefulness and nonobviousness, and the second did not.

In the last few years, the PTO has seen an explosion of patent applications for computer-related inventions. The American patent system is designed to foster individual creativity and inventiveness while sharing its benefits with society. Thus, an inventor is given the right to exclusively control and profit from his invention for a limited time in exchange for its public disclosure.

Generally, a United States patent is an asset that permits the fortuitous inventor to exclude others from making, using, importing, selling, or offering for sale the patent invention for up to twenty years from the date of filing the patent application.¹²⁹ Since a patent is a government recognized asset, it can be assigned and licensed. Patent owners may file suit against infringers for damages and enjoin the wrongdoer from future infringement.

¹²⁹ 35 U.S.C. §§ 154(a)(2), 171.

American patent law is based in the United States Constitution which has empowered Congress to "promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."¹³⁰ Consequently, federal statutes provide patent protection for inventions which promote the progress of science:

Whoever invents or discovers any new or useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

35 U.S.C. § 101.

A great variety of inventions fall within the parameters of inventions which promote the "progress[ion] of science and useful arts." The United States Supreme Court has interpreted the foregoing language in the broadest sense: "The subject matter provisions of the patent law have been cast in broad terms to fulfill the goal of promoting the progression and the useful arts. Congress employed such broad language precisely because future inventions are often unforeseeable." Diamond v. Chakrabarty, 447 U.S. 303, 309 (1990).

Generally there are several types of patents and with different classifications. The two most common types of patents are utility and design patents. A utility patent is designed to protect an invention's useful benefits and may cover a new and useful process, a new and useful machine, or a new and useful composition of matter. Currently, utility patents are granted for a term of twenty years from the date of their

¹³⁰ U.S. Const., art I, § 8, cl.8.

filing.¹³¹ A design patent, on the other hand, protects the aesthetic features of an invention as opposed to its utility.¹³² Design patents are granted for a term of fourteen years from the date of issuance.¹³³

1. **New, Useful and Non-obvious.** To be eligible for a patent, the invention must be proven to be new¹³⁴, useful¹³⁵, and non-obvious¹³⁶ as compared to all past inventions, otherwise known as the "prior art." Prior art includes all known inventions that are publicly available prior to the filing date of the patent application. Theoretically, this would be the entire body of published technology throughout the world.¹³⁷

¹³¹ 35 U.S.C. § 154.

¹³² 35 U.S.C. § 171 states in relevant part as follows:

Whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefor, subject to the conditions and requirements of this title.

¹³³ 35 U.S.C. § 173.

¹³⁴ 35 U.S.C. § 102.

¹³⁵ 35 U.S.C. § 101.

¹³⁶ 35 U.S.C. § 103.

¹³⁷ For example, section 102 of the patent statutes provides for specific categories of prior art that can be used to deny or invalidate a patent on the grounds that the invention lacks novelty and is obvious. Such categories include, (1) the fact that an American or foreign patent has already been issued for the same invention; (2) evidence of public use or public disclosure of the invention in the United States; and (3) evidence of a sale or offer to sell the invention in the United States:

A person shall be entitled to a patent unless:

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United State, or . . .

a. **New and Useful.** An invention is "new" if it has not been publicly disclosed by the prior art before the filing date of the patent application.

Practically speaking, the applicant need only show that his invention is different, if only in some respect, from another invention that the patent examiner claims is identical.

b. **Non-Obvious.** Generally, an invention is "non-obvious" if a "person of ordinary skill in the art" would not have viewed the invention as obvious as compared to the prior art at the time the patent application was filed.¹³⁸ The PTO examines the state of the art at the time of the invention and the knowledge of one having "ordinary skill in the art" to which the invention pertains. Although it is a difficult standard to interpret, several decisions have provided some guidance. Specifically, Graham v. John Deere Co., 383 U.S. 1 (1966) recited some of the factors considered when determining obviousness:

[T]he Section 103 condition. . . lends itself to several basic factual inquiries. Under Section 103, the scope and content of the prior art are to be determined; differences between the prior art and claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this background, the obviousness or non-obviousness of the subject matter is determined. Such

(c) he did not himself invent the subject matter sought to be patented, or

(d) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

¹³⁸ The non-obviousness requirement as stated in the federal statutes is as follows:

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

35 U.S.C. § 103.

secondary considerations as commercial success, long felt but unresolved needs, failure of others, etc., might be utilized to give light to the circumstances surrounding the origin of the subject matter sought to be patented. As indicia of obviousness or non-obviousness, these inquiries may have relevancy. See Note, Subtests of Nonobviousness : A Nontechnical Approach to Patent Validity, 112 U. Pa. L. Rev. 1169 (1964).

Id. 383 U.S. 1, 17 (1966).

Indeed, many inventions may seem upon reflection, obvious, but the Supreme Court has warned against using hindsight as the measure in which obviousness should be determined:

Knowledge after the event is always easy, and problems once solved present no difficulties, indeed, may be represented as never having had any, and expert witnesses may be brought forward to show that the new thing which seemed to have eluded the search of the world was always ready at hand and easy to be seen by a merely skillful attention. But the law has other tests of the invention than subtle conjectures of what might have been seen and yet was not. It regards a change as evidence of novelty, the acceptance and utility of change as further evidence, even as demonstration.

Diamond Rubber Co. v. Consol. Rubber Tire Co., 220 U.S. 428, 435-36 (1911).

2. **On-Sale Bar.** Section 102(b) presents significant problems in light of the lightning quick pace of on-line and Internet technology. Specifically, Section 102(b) prohibits patenting an invention which has been either described in print or commercially exploited ("on-sale") more than one year before the date of application for a United States patent.

In the software industry, inventors of software often describe their inventions in trade magazines or other publications. However, Section 102(b) effectively blocks any patent application in which the invention was described in such a printed publication more than one year prior to the date the application was filed. Once a patent application has been filed for an invention, a printed publication of the invention no longer serves to

threaten its patentability. Thus, businesses and their marketing divisions must time the publishing and release of articles regarding their inventions until after the patent application is filed.

Similarly, companies introducing products routinely participate in world wide industry trade shows. Trade shows afford such companies the opportunity to showcase their new product in front of their target audiences. However, participation in trade shows could result in a loss of patent rights under Section 102(b). Showcasing the invention at a trade show could be interpreted as placing the product into public use, or on-sale, as provided for in Section 102(b). In such case, the patent application would be denied if it was filed more than one year from the date the invention was first featured at the trade show. Thus, businesses should time the trade show presentations of their products accordingly.

However, this grace period is not available in many other countries. Thus, any inventor interested in obtaining foreign patents must be sure to file for American and foreign patent applications before any public disclosure of the invention.

B. Elements Of A Patent Application. Every patent application must contain: a written specification describing the invention, a drawing, an oath or declaration, and a filing fee.¹³⁹

¹³⁹ 35 U.S.C. § 111 (a) states in relevant part as follows:

(1) Written application. An application for patent shall be made, or authorized to be made, by the inventor, except as otherwise provided in this title, in writing to the Commissioner.

(2) Contents. Such application shall include -

- (A) a specification as prescribed by section 112 of this title;
- (B) a drawing as prescribed by section 113 of this title; and
- (C) an oath by the applicant as prescribed by section 115 of this title.

1. **Specification.** The specification of a patent application describes the invention in full. It should include an explanation as to why the invention is needed, what is intended to be accomplished by it and a thorough account of how the invention is made and used. The applicant should also describe the best mode of realizing the invention:

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms to enable any person skilled in the art to which it pertains or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

The specification shall include with one or more claims, particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

35 U.S.C. § 112.

2. **Patent Claims.** The claims section of a patent application, which is a subpart of the specifications, is the most important section. Distinguished by numbered paragraphs, the claims describe in minute detail the unique aspects of the invention for which a patent is sought. Software inventions can be protected by using a variety of claims, such as the apparatus, method, and means-plus-function claims.

An apparatus claim is directed to protect the computer itself. Thus, when a claim is intended to protect a software invention, the novelty of the claim should be in the

(3) Fee and oath. The application must be accompanied by the fee required by law. The fee and oath may be submitted after the specification and any required drawing are submitted, within such period and under such conditions, including the payment of a surcharge, as may be prescribed by the Commissioner.

functionality of the various software in the computer, the effect that the software has on the computer, or the interactions of various components facilitated by the software.

A method claim is directed toward the systematic steps performed within a computer system. The applicant will receive protection for the execution of these steps which are usually initiated by a user and performed by the computer system.

A means-plus-function claim is used to cover a computer system having specific means for performing functionality that identifies the means. Simply put, the mean-plus-function claims cover the means for performing the steps.

Computer-readable medium claims and data structure claims are also available for software inventions. A computer-readable medium claim is directed to protecting a computer-readable medium, such as a floppy disk, that is encoded with instructions which cause a computer to perform specific functions. These claims provide protection for the actual disk on which the software is sold.

Data structure claims, on the other hand, are directed to a data structure encoded within the memory of a computer that serves to store data. Many data structures are now well known, thus, the novelty of the data structure claim will frequently be found in the functional language that describes how the data structure is utilized. To properly and effectively draft any of these claims in a patent application requires particular skills in order to protect it from potential infringement. Thus, an experienced patent attorney should be consulted prior to submitting a patent application.

3. Drawing. The drawing requirement for a patent application supplements the written description of the invention, making an often times complex invention easier to understand. The drawings of patent applications for software related

inventions are usually detailed flow charts of the various steps accomplished by the software.

C. Patent Markings. Patent articles must be marked with the word "patent" or the abbreviation "pat," and combined with the number of the patent. Failure to mark may prevent the patent owner from later recovering damages from an infringer, unless the infringer was otherwise duly notified of the infringement and continued to infringe after the notice. It is against the law to mark any article as patented when it is not in fact patented.¹⁴⁰ Often, articles are marked with the terms "patent applied for" or "patent pending" which have no legal effect. They simply serve as notice that an application for a patent has been filed in the PTO.

D. Infringement. Patent owners may bring suit in federal court to enforce rights against anyone who has infringed their patents. Patent owners can obtain damages and other relief for infringements, the three types most common being direct infringement, contributory infringement and inducing infringement.

1. Direct Infringement. Direct infringement occurs when the accused infringer actually makes, uses, sells, offers for sale, or imports a product that falls within the parameters of the claims delineated in the patent application. There are

¹⁴⁰ 35 U.S.C. § 287(a) states in relevant part as follows:

Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them, or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereof the word "patent" or the abbreviation "pat," together with the number of the patent, or when, from the character of the article, this cannot be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

two subcategories to direct infringement - literal infringement and the Doctrine of Equivalents.

A patent is infringed literally when the accused device includes each and every element found in the claim of the subject patent. If literal infringement is not found, the device may still be infringing under the Doctrine of Equivalents which considers the meaning of the claims and several other factors, including the scope and content of the prior art and the patent application file history. Generally, under the Doctrine of Equivalents, an accused device can infringe a patent where it performs substantially the same function, in substantially the same way, to achieve substantially the same result as the claimed invention. In other words, one who does not copy every literal detail of someone else's invention may still be guilty of infringement if one misappropriates the "true invention" from the patent owner.

Since the time the Doctrine of Equivalents was first established in Graver Tank & Mfg. Co., Inc. v. Linde Air Products, 339 U.S. 605 (1950), the United States Supreme Court has since offered two important clarifications in Warner-Jenkinson Co. v. Hilton Davis Chem. Co., 520 U.S. 17 (1997). First, the Supreme Court stated that the application of the Doctrine of Equivalents should be done on an element by element basis rather than applying it to the invention as a whole. Second, the Court determined that both the "function/way/result" and the "insignificant difference" tests would co-exist, and continue to be used in determining whether the patent owner has met the burden of establishing the Doctrine's applicability. The first of these tests weighs an invention against its purported equivalent based on three individual factors - whether it (1) has substantially the same function; (2) operates in substantially the same way; and (3)

achieves substantially the same result. The "insignificant difference" test, as its name implies, substantiates the equivalence of two inventions by simply showing that any differences between the elements in each are "insubstantial."¹⁴¹

2. Contributory Infringement. Contributory infringement occurs where the accused infringer does not actually sell a patented invention, but knowingly sells an important part of the invention.¹⁴² Direct infringement is a pre-condition to contributory infringement. Moreover, in order for a contributory infringer to have the requisite knowledge that he has sold a component of a patented invention, the infringer must know that the product for which he sells a component of is in fact patented and that the maker of that product is not licensed under the patent.¹⁴³

3. Inducing Infringement. Inducing infringement occurs when someone actively and knowingly assists a third party in infringing a patent.¹⁴⁴ Again, direct infringement must be found in order for someone to be liable for inducing

¹⁴¹ More recently, in the context of Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722 (2002), the Supreme Court clarified that the doctrine of prosecution history estoppel does not act as a complete bar to infringement claims based upon the Doctrine of Equivalents. Prosecution history estoppel is a doctrine that prevents patent holders from enforcing their patents against those would make, use or sell products that would have infringed a patent claim prior to the claim having been narrowed by amendment during the patent prosecution process.

¹⁴² The federal code states in relevant part as follows:

Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributory infringer.

35 U.S.C. § 271(c).

¹⁴³ Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 488 (1964); Trell v. Marlee Elec. Corp., 912 F.2d 1443, 1447 (Fed. Cir. 1990).

¹⁴⁴ "Whoever actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b).

infringement.¹⁴⁵ Moreover, the accused infringer must have knowingly induced infringement.¹⁴⁶ The Federal Circuit has held that while contributory infringement requires only proof of the defendant's knowledge that the defendant's activity would cause infringement, inducing infringement requires actual intent.¹⁴⁷ Thus, the accused infringer must have intended to actively encourage another's infringement. The patent owner has the burden of showing such intent and that the infringer's action did in fact induce infringing acts.

E. Methods of Doing Business

For years, the Patent Bar operated under a vague, and some say misguided, assumption that based on 35 U.S.C. § 101, methods of doing business were not patentable. Referred to as the “Business Method” Exception, these innovations were lumped into the same class as mathematical algorithms, laws of nature, natural phenomenon and abstract ideas – unqualified patentable subject matter. However, in 1998, the Federal Circuit laid waste to this notion when it decided State Street Bank v. Signature Financial Group, 149 F.3d 1368 (Fed. Cir. 1998). Before State Street, it was often felt that Hotel Security Checking Co. v. Lorraine Co., 160 F. 467 (2d Cir. 1908) stood for the proposition that business methods were, per se, unpatentable. However, careful scrutiny of the court’s decision in Hotel Security reveals that the subject patent lacked novelty—the problem was not a lack of proper subject matter.

¹⁴⁵ Met-Coil Sys. Corp. v. Korners Unlimited, Inc., 803 F.2d 684, 687 (Fed. Cir. 1986).

¹⁴⁶ Water Tech. Corp. v. Calco, Ltd., 850 F.2d 660, 668 (Fed. Cir. 1988).

¹⁴⁷ Hewlett-Packard Co. v. Bausch & Lomb, Inc., 909 F.2d 1464, 1468-9 (Fed. Cir. 1990).

In State Street, the court examined a patent that used a mathematical algorithm to facilitate the manipulation of data. The apparatus claim of the subject patent described a data processing system for implementing an investment system. In this system, various mutual funds pooled assets into an investment portfolio structured as a partnership. Although the claims in the State Street case were apparatus and not method claims, the court found this distinction of no consequence regarding subject matter analysis.

The State Street court held that the transformation of data by a machine, or apparatus, by way of a series of calculations constituted a practical application of a mathematical algorithm inasmuch as it produced “a useful, concrete and tangible result.” Id. at 1373. The system’s final product was a final share price which was momentarily fixed so it could be recorded and reported amounted to “a useful, concrete and tangible result.” The court went on to note that the question of whether a claim recites statutory subject matter turns on the practical utility of the result. Even if the result is not expressed in numbers, so long as it is “useful, concrete and tangible,” the result will not fail the subject matter test.

So that there was no lingering issue on the question, the State Street court expressly said that it was taking the opportunity presented by this case to lay “this ill conceived exception (the Business Method Exception) to rest.” “Since its inception, the Business Method Exception has merely represented the application of some general, but no longer applicable legal principle... Since the 1952 Patent Act, business methods have been, and should have been, subject to the same legal requirements for patentability as applied to any other process or method.” Id.

Concern over the proliferation of business method patents and the possible deleterious effects upon competition in the marketplace led Congress to enact the First Inventor Defense as part of the American Inventors Protection Act of 1999. The Act provides a personal defense to infringement of a patent for a business method for one who has reduced the method to practice and used it commercially for more than one year before the effective filing date of the patent. This defense must be established by clear and convincing evidence. While the defense is personal, the Doctrine of Exhaustion applies.¹⁴⁸ The defense does not invalidate the patent under 35 U.S.C. 102.

The defense only applies to business method patents. Accordingly, one must have a clear understanding of what is meant by the term “method.” While Congress has not yet clarified what is to be meant by the term, in the context of the Act, § 273 (a)(3) defines “method” as “a method of doing or conducting business.” 35 U.S.C. § 273 (a)(3) (2000).

¹⁴⁸ A patent owner’s rights are exhausted by the sale of the useful end product produced by the patented method. Thus, a patent owner cannot take action against customers of the party entitled to the defense.

VII. IP AUDITS

A. Discovering Hidden Treasures (The IP Audit)

“In an economy increasingly based on information and technology, ideas and creativity often embody most of a company's wealth. That is why innovations are being patented, trademarked and copyrighted in record numbers. It is also why today's clever thief doesn't rob banks, many of which are broke anyway. He makes unauthorized copies of Kevin Costner's latest film, sells bogus Cartier watches, and steals the formula for Merck's newest pharmaceutical. That's where the money is.”

-- Fortune Magazine (March 1995)

1. **What Is The Purpose Of An Intellectual Property Audit?**

An Intellectual Property Audit provides a comprehensive assessment of the legal status of a company's proprietary rights in its valuable intangible assets such as tradenames, trademarks, service marks, copyrights, patents, trade secrets and rights of publicity.

2. **Why Should An Intellectual Property Audit Be Conducted?**

The Intellectual Property Audit is the cornerstone of a company's proprietary rights program whose objective is to identify, maintain, protect and enhance the value of existing intangible assets. In addition, any company involved in a proposed merger, acquisition, sale or secured lending arrangement should consider a comprehensive evaluation of all intellectual property assets involved in the transaction.

3. **What Will An Intellectual Property Audit Reveal?**

An Intellectual Property Audit will focus upon and evaluate the origin of a company's intangible assets, the extent of the company's rights therein and identify the scope of rights that third parties may hold to such property by way of ownership, license

or by operation of law. The Intellectual Property Audit also identifies existing defects in intellectual property and facilitates the development of systematic procedures for protecting and perfecting intellectual property rights. In addition, an Intellectual Property Audit will determine, in advance of litigation, if all filings necessary for jurisdictional requirements have been satisfied, and what defenses exist. Finally, an Intellectual Property Audit will identify potential liability for third party claims of infringement.

4. Who Can Benefit From An Intellectual Property Audit?

Buyers, sellers, investors and owners of any company that deals in, or utilizes, intangible assets. For example, many asset purchase agreements contain warranties by the seller that the seller has good title to all assets being conveyed yet rarely is an independent investigation made of the legal status of the intangible property rights involved. Often such warranties are breached at closing because the seller never owned the rights it is now purporting to sell. This problem is growing more acute as more and more companies outsource the creation of all types of intangible assets to independent consultants because, contrary to the conventional erroneous wisdom that -- "if-I-paid-for-it-I-own-it" -- unless an independent consultant has executed a proper assignment of rights or the work produced comes within the scope of the "work for hire doctrine," the independent consultant, not the company who hired him, may retain all copyrights in the work product. Accordingly, it is essential that properly drafted agreements assigning ownership of the work product and all intellectual property rights therein to the hiring party be executed **prior** to the start of any work by an independent consultant.

5. Are All Intellectual Property Audits The Same?

No. The type, scope and cost of an audit will vary depending on the nature of the company's business, the type of intangible assets involved and goal of the company in undertaking the Audit.

6. When Should An Intellectual Property Audit Be Undertaken?

Intellectual Property Audits should be considered during the formation phase of a new company, when structuring strategic alliances and joint ventures and whenever there is a major acquisition of intangible property rights through merger, stock purchases, licenses, the taking of a security interest or by an out-right sale.

VIII. INTELLECTUAL PROPERTY RIGHTS AND THE INTERNET

A. Covrights and the Internet

1. Internet Activities That Implicate Exclusive Rights Granted Copyright Owners.

Various functions performed in connection with on-line activities such as uploading, downloading, browsing, e-mail, hyperlinks, framing and caching can implicate one or more of the exclusive rights granted copyright owners under 17 U.S.C. § 106.

In a number of cases including MAI Systems Corp. v. Peak Computers, Inc., 991 F.2d 511 (9th Cir. 1993), cert. dismissed, 114 S.Ct. 671 (1994), courts have held that loading a program into the RAM of a computer creates a "copy" of the work if the copy is resident for a period of time that allows aspects of the program, or at least of what output it was intended to generate, to be viewed by the user, thus meeting the "perceived" element of the definition. According to the holding in MAI v. Peak, a number of Internet activities that involve putting a work into RAM implicate a copyright owner's reproduction right. Thus, the simple act of loading a work on the Internet makes a copy and, unless authorized, may amount to infringement. Additionally, under MAI v. Peak, every time a work moves, in digital form, from one computer to another, or from one part of memory to another, a new "copy" is made. Therefore, as a work moves through cyberspace, unless authorized or exempted, by present definition, it leaves a trail of infringements in its wake. Browsing, i.e., simply reading a work, on the

Internet may amount to infringement because to do so requires copying the work into memory.

In Religious Technology Center v. Netcom On-Line Communications Serv., Inc., 907 F.Supp 1361 (N.D. Cal. 1995), the court observed that “[a]bsent a commercial or profit-depriving use, digital browsing is probably a fair use. . . .” 907 F.Supp. at 1378 n.25.

Caching, a process whereby ISPs copy a file from a remote server to improve performance¹⁴⁹, also implicates the reproduction right because the works cached are copied by the ISP from the remote site onto the ISP's own system. One early decision found that this function, when it occurs automatically in the context of Usenet newsgroups, does not implicate the reproduction right. See Religious Technology Center v. Netcom On-line Communications Serv., Inc., 907 F.Supp. 1361, 1368-1369 (N.D. Cal. 1995).

In Playboy Enter., Inc. v. Frena, 839 F.Supp 1552 (M.D. Fla. 1993), the court held that the uploading of photographs onto a BBS "implicated" the plaintiff's distribution right under 17 U.S.C. §106(3) and violated the plaintiff's "display" rights under 17 U.S.C. §106(5). The court found the BBS operator had "displayed" the subject work finding that the “concept of display is broad [to cover] the projection of an image on a screen or other surface by any method, the transmission of an image by electronic or other means, and the showing of an

¹⁴⁹ Also, a user's web browser will usually temporarily store either graphics or HTML documents obtained from a website to speed display the next time they are called up.

image on a cathode ray tube, or similar viewing apparatus connected with any sort of information storage and retrieval system," id. at 1556, and that the defendant's display was public because, though limited to subscribers, the audience consisted of "a substantial number of persons outside of a normal circle of family and its social acquaintances," id. at 1557.

Despite the system operator's purported lack of knowledge in Frena regarding the infringements, the court held that it had directly infringed Playboy's ownership rights in the photographs. The court held that it did not matter whether the defendant made the copies itself because the system operator had "supplied a product containing unauthorized copies of a copyrighted work." Id. at 1556. The court refused to find that the display and distribution were protected as a "a fair use." Id. at 1557-59. In effect, the court held the BBS operator strictly liable.

In Religious Technology Center v. Netcom On-Line Communications Serv., Inc., 907 F.Supp 1361, 1372 (N.D. Cal. 1995), the court found that the public distribution right was not infringed by a company that only provided Internet access and did not "archive" the infringing material.

In Sega Enter., Ltd. v. MAPHIA, 857 F.Supp. 679 (N.D. Cal. 1994), pirated copies of Sega's video games were posted on the bulletin boards by its users where they could be downloaded by other users. This practice took place under the direction, and with the knowledge and encouragement, of the system operator. The system operator claimed that it was not directly profiting from the distribution of the pirated copies; nevertheless, the court held that the plaintiff had

made out a prima facie case, for preliminary injunction purposes, of direct and contributory infringement given the system operators' knowledge and encouragement in connection with the uploading activity. Id. at 686. In a subsequent opinion on the defendant's motions for summary judgment¹⁵⁰, the court declined to find direct infringement because the defendant had not himself uploaded or downloaded the copyright works, but affirmed its earlier finding of contributory liability based upon the defendant's knowledge and encouragement of the subscriber's activities.

Issues concerning vicarious copyright infringement have arisen most notably in the context of the Internet music swapping services. In A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001), the Ninth Circuit affirmed the district court's decision that Napster had facilitated third party infringement of plaintiff's copyrighted works by providing the software and a server pursuant to which the swapping of MP3 music files could take place and was liable, therefore, for contributory copyright infringement. Napster had raised defenses under the DMCA II safe harbors (discussed below), and the Audio Home Recording Act, and fair use, none of which were sustained. Napster has since such down.

While music file swapping using the Napster service required the existence of a third party server, something Napster had maintained for the benefit

¹⁵⁰ Sega Enter., Ltd. v. MAPHIA, 948 F.Supp. 923, 932 (N.D. Cal. 1996).

of the swappers, other peer-to-peer (P2P) file swapping services, as for example Mad ster, Audiogalaxy, and FastTrack, currently used by KaZaA, do not.

Concerned about loss of market share, the record companies commenced Napster like lawsuits against several of these new companies with generally, though not entirely, favorable results.

Consolidated litigation concerning services being provided by Aimster (Madster) ended in September 2002 when the district court issued a preliminary injunction based on the causes of contributory and vicarious copyright infringement. In re Aimster Copyright Litigation, Mem., No. 01 c 8933 Multi District Litigation #1425 (N.E. Ill., Mem. Opinion of September 4, 2003), available at <http://www.techlawjournal.com/courts2001/aimster/20020904.asp>.

The Recording Industry Association of America (RIAA) filed suit against Audigalaxy, claiming the issues to be identical to those determined in the Napster lawsuit. This case ended in a settlement pursuant to which Audiogalaxy agree to pay "a substantial sum" and block access to copyrighted songs from its service.

See <http://www.pcworld.com/news/article/0,aid,101975,00.asp>. Finally RIAA, joined by the Motion Picture Association of America and individual movie studios, brought suit against the developer and corporate users of FastTrack, for both contributory and vicarious copyright infringement. This case is ongoing, with no definitive rulings having yet been issued.

Meanwhile in March 2002, the Amsterdam court of appeals in the Netherlands reversed a trial court that had held file-swapping company KaZaA

liable for contributory copyright infringement, reasoning that (1) the KaZaA application does not depend on any intervention by KaZaA; (2) it is not possible to technically detect, and therefore for KaZaA to block, files are copyrighted and which are not; and (3) providing the means for publication or reproduction of copyrighted works is not an act of publication or reproduction in its own right, and the KaZaA computer program can be used for downloading non-copyrighted works. An unofficial translation of the Amerstam appeals court's decision is available from the Electronic Frontier Foundation website at http://www.eff.org/IP/P2P/BUMA_v_Kazaa/20020328_kazaa_appeal_judgment.html.

In-line linking and framing seemingly would also implicate the reproduction. When the linked page is framed within a host site, a copy appears to have been made for the purpose of framing the material. The case of Kelly v. Arriba Soft. Corp., 280 F.3d 934 (9th Cir. 2002), involved the Arriba search engine that functioned to list its search results in the form of “thumbnails” of the indexed sites. When the user clicked on a thumbnail hit, the thumbnail image would enlarge and appear to be framed within the Arriba site. Kelly owned photographs that he had posted on his own site, and that were being linked and framed by Arriba's search engine whenever a search result included the Kelly website.

According to the Ninth Circuit Court, this particular web technology, framing through in-line linking, “does not entail copying [Kelly's

full-sized photographic images].” Rather, the technology “import[s the images] directly from Kelly’s web site. Therefore it cannot be copyright infringement based on the reproduction of copyrighted works. . . . Instead, this use of Kelly’s images infringed upon Kelly’s exclusive right to ‘display the copyrighted work publicly.’” 280 F.3d at 944. After analyzing the four fair use factors, the Ninth Circuit rejected the defendant search engine’s argument that its full-sized display of Plaintiff’s photographs, when framed within the Defendant’s web site through in-line linking technology, was a fair use.

2. The DMCA of 1998 -Title I (Technological Protection Measures and Copyright Management Information.

On October 28, 1998, President Clinton signed into law the “Digital Millennium Copyright Act” (“DMCA”). Title I of the DMCA significantly expands the entitlements of content owners by providing new methods of controlling content in the digital environment.

Title I of the DMCA purports to implement the WIPO¹⁵¹ Treaties¹⁵²- the WIPO Copyright Treaty (WCT)¹⁵³ and the WIPO Performances and Phonograms Treaty (WPPT)¹⁵⁴. These Treaties, which have been signed by one hundred sixty

¹⁵¹ WIPO is an international organization that administers intellectual property treaties such as the Berne Convention.

¹⁵² WIPO held a general assembly Diplomatic Conference in December, 1996 to consider several proposed treaties. Two were adopted – WCT and WPPT.

¹⁵³ SEE WIPO Copyright Treaty, adopted by the Diplomatic Conference on December 20, 1996, WIPO Doc. CRNR/DC/94 (Dec. 23, 1996).

¹⁵⁴ See WIPO Performances and Phonograms Treaty, adopted by the Diplomatic Conference on December 20, 1996, WIPO Doc. CRNR/DC/95 (Dec. 23, 1996).

nations, establish several significant international norms¹⁵⁵ for applying copyright law in the digital age and require member countries to provide protection to certain works from other member countries or created by nationals of other member countries.¹⁵⁶ Both WCT and WPPT prohibit conditioning the enjoyment of copyright rights on the fulfillment of formalities and require adequate legal protection against circumvention of technological measures used to protect copyrighted works.

Most of the requirements of the WIPO Treaties already existed under U.S. law and others were easily implemented by amendment to existing law.¹⁵⁷

¹⁵⁵ These norms include: the concept that copyright owners should have an exclusive right to control the making of copies of their works in digital form; the concept that copyright owners should have an exclusive right to control the communication of their works to the public; the concept that nations can maintain existing exceptions and limitations, such as fair use, as appropriate in the digital environment, and develop new exceptions and limitations appropriate to the digital environment; the concept that providing for the communication of works should not be a basis for infringement liability; the concept that it should be illegal to tamper with copyright management information to the extent such conduct facilitates or conceals infringement in the digital environment; and the basic concept that nations should implement “adequate legal protection and effective legal remedies against the circumvention of effective technological measures” used by copyright owners to protect their works from infringing uses.

¹⁵⁶ Both WCT and WPPT require parties to protect existing works from other member countries that have not fallen into the public domain in the country of origin through the expiry of the term of protection. A similar obligation is contained in both the Berne Convention and the TRIPS Agreement. In 1995 this obligation was implemented in the Uruguay Round Agreements Act, creating a new section 104A in the Copyright Act to restore protection to works from Berne or WTO member countries that are still protected in the country of origin, but which fell into the public domain in the United States in the past because of a failure to comply with formalities that then existed under U.S. law, or due to a lack of treaty relations. Section 102(c) of the DMCA amends section 104A to restore copyright protection in the same circumstances to works from WCT and WPPT member countries.

¹⁵⁷ For example, section 411(a) of the Copyright Act requires claims to copyright to be registered with the Copyright Office before a lawsuit can be initiated by the copyright owner, but exempts many foreign works in order to comply with existing treaty obligations under the Berne Convention. Section 102(d) of the DMCA amends section 411(a) by broadening the exemption to cover all foreign works. Furthermore, section 104 of the Copyright Act establishes the conditions

Nevertheless, and perhaps most importantly, Congress was persuaded¹⁵⁸ to pass significant intellectual property legislation which prohibits: 1) the circumvention of technological measures used to protect copyright owners rights; and 2) the removal or alteration of electronic management information.

Section 103 of the DMCA adds a new chapter 12 to Title 17 of the U.S. Code. New section 1201 implements the WIPO Treaties'¹⁵⁹ obligation to provide adequate and effective protection against circumvention of technological measures used by copyright owners to protect their works.

Section 1201(a)(1)(A) prohibits the **act** of circumventing “a technological measure that effectively controls access to a work protected under this title.”

Sections 1201(a)(2) and 1201(b)(1) regulate **technologies** with circumvention-enabling capabilities and are referred to as the “anti-device” provisions. Section 1201(a)(2) addresses devices that circumvent “a technological measure that effectively controls access to a work protected by” the Copyright Act (access

of eligibility for protection under U.S. law for works from other countries. Section 102(b) of the DMCA amends section 104 of the Copyright Act and adds new definitions to section 101 of the Copyright Act in order to extend the protection of U.S. law to those works required to be protected under the WCT and the WPPT.

¹⁵⁸ The U.S. entertainment industries actively supported the WCT and WPPT and lobbied heavily in favor of the DMCA. One commentator argues that the Clinton administration inadvisably pushed portions of the DMCA through Congress, bowing to the wishes of the entertainment industries. See Pamela Samuelson, *Intellectual Property and the Digital Economy: Why the Anti-Circumvention Regulations Need to Be Revised*, 14 Berkeley Tech. L.J. 519 (1999).

¹⁵⁹ Article 11 of the WCT states: “Contracting parties shall provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by authors in connection with the exercise of their rights under this Treaty or the Berne Convention and that restrict acts, in respect of their works, which are not authorized by the authors concerned or permitted by law.” Article 18 of the WPPT contains similar language.

controls). A measure effectively controls access if it requires the application of information or a process or a treatment, with the authority of a copyright holder, to gain access to a work. 17 U.S.C.S. §1201(a)(3)(B).

RealNetworks' "Real Media" technology is an example of a "technological measure" that "effectively controls access" to copyrighted works.¹⁶⁰ Another example of a technological measure that effectively "controls access to" copyrighted works is the scrambling technologies used by cable or satellite broadcasters.

Section 1201(b)(1) relates to devices that circumvent the "protection afforded by a technological measure that effectively protects a right of a copyright owner . . . in a work or a portion thereof" (copying controls). A measure effectively protects the right of a copyright holder if it prevents, restricts or otherwise limits the exercise of a right of a copyright owner. 17 U.S.C.

§1201(b)(2)(B). A product, or part thereof, "circumvents the protections afforded by a technological measure" by avoiding bypassing, removing, deactivating or otherwise impairing the operation of that technological measure. 17 U.S.C.

§1201(b)(2)(A). In each case, section 1201 states that "[n]o person shall

¹⁶⁰ RealNetworks develops and markets software products which enable the owners of audio, video, and other multimedia content to send their content to users of personal computers over the Internet and which enable consumers to access such content through a process known as "streaming." When an audio or video file is "streamed" to a consumer, no trace of the file is left on the consumer's computer, unless the content owner has permitted the consumer to download the file. "Streaming" is different from "downloading," a process by which a complete copy of an audio or video file is delivered to and stored on a consumer's computer. A downloaded file can be accessed at will, and can generally be redistributed to others.

manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof” if it (1) “is primarily designed or produced for the purpose of circumventing,” (2) “has only limited commercially significant purpose or use other than to circumvent,” or (3) “is marketed by that person or another acting in concert with that person with that person’s knowledge for use in circumventing” the technological measure or the protection it affords. These three tests are disjunctive. In other words, a product that meets only one of the three independent bases for liability is prohibited.

The anti-device rules have a narrower range of exceptions than does the act-of-circumvention ban. Furthermore, the distinction between preventing unauthorized **access** to a protected work and preventing unauthorized **copying** of a protected work is important. Making or selling devices or services that are used to circumvent either category of technological measure is prohibited in certain circumstances. However, with regard to the act of circumvention itself, the law prohibits circumventing the first category of technological measures, i.e., access controls, but not the second, i.e., copying controls. Since copying of a work may be permitted as a “fair use¹⁶¹,” section 1201 does not prohibit the act of circumventing a technological measure that prevents copying. However, because the fair use doctrine is not a defense to the act of gaining unauthorized access to a

¹⁶¹ Section 1201(c)(1) provides that nothing in section 1201 affects rights, remedies, limitations or defenses to copyright infringement, including fair use. Section 1201(c)(2) states that nothing in section 1201 enlarges or diminishes vicarious or contributory copyright infringement. (Emphasis added).

work, the act of circumventing a technological measure in order to gain access is prohibited.

Claims arising under §1201 are not copyright “infringement” claims. In this regard, Section 1201 of the DMCA occupies a niche that is distinct from copyright infringement and §1201 is removed from DMCA’s definition of copyright infringement.

Section 1201(c)(3) provides that the prohibition on circumvention devices does not require manufacturers of consumer electronics, telecommunications or computing equipment to design their products affirmatively to respond to any particular technological measure.¹⁶²

Congress recognized that there are legitimate reasons to engage in circumvention and therefore provided for several exceptions to the bans on acts of circumvention and circumvention devices: for nonprofit library, archive and educational institutions, in Section 1201(d); for law enforcement, in Section 1201(e); for reverse engineering, in Section 1201(f); for encryption research, in Section 1201(g); for protection of minors, in, Section 1201(h); for personal privacy, in Section 1201(i); and for security testing, in Section 1201(j).

¹⁶² However, Section 1201(k) does mandate an affirmative response for one particular type of technology: within 18 months of enactment, all analog videocassette recorders must be designed to conform to the two forms of copy control technology currently in use for preventing unauthorized copying of analog videocassettes and certain analog signals – the automatic gain control technology and the colorstripe copy control technology. Section 1201(k) prohibits rightholders from applying these specified technologies to free television and basic and extended basic tier cable broadcasts.

In addition, Section 1201(a)(1)(B)-(E), establishes an ongoing administrative rule-making proceeding to evaluate the impact of the prohibition against the act of circumventing access-control measures. Pursuant to such rule-making authority, the Register of Copyrights concluded that a case had been made for an exemption for (1) compilations consisting of lists of websites blocked by filtering software applications; and (2) literary works, including computer programs and databases, protected by access control mechanisms that fail to permit access because of malfunction, damage or obsolescence.

<http://www.copyright.gov/1201/anticirc.html>. Such rulemaking is ongoing and additional exemptions may result. See <http://www.copyright.gov/1201/>.

Section 1202 of the DMCA prohibits tampering with “copyright management information” (“CMI”).¹⁶³

¹⁶³ Section 1202 implements Article 12 of the WCT, which provides, in relevant part, that:

Contracting Parties shall provide adequate and effective legal remedies against any person knowingly performing any of the following acts knowing, or with respect to civil remedies having reasonable grounds to know, that it will induce, enable, facilitate or conceal an infringement of any right covered by this Treaty or the Berne Convention:

(i) to remove or alter any electronic rights management information without authority;

(ii) to distribute, import for distribution, broadcast or communicate to the public, without authority, works or copies of works knowing that electronic rights management information has been removed or altered without authority.

Article 19 of the WPPT contains similar language.

Section 1202(a) prohibits the knowing provision or distribution of false CMI, if done with the intent to induce, enable, facilitate or conceal infringement. Section 1202(b) bars the intentional removal or alteration of CMI without authority, as well as the dissemination of CMI or copies of works, knowing that the CMI has been removed or altered without authority. Liability under Section 1202(b) requires that the act be done with knowledge or, with respect to civil remedies, with reasonable grounds to know that it will induce, enable, facilitate or conceal an infringement of a copyright.

Section 1202(c) defines CMI as identifying information about the work, the author, the copyright owner, and in certain cases, the performer, writer or director of the work, as well as the terms and conditions for use of the work, identifying numbers or symbols that accompany such information or links to such information, such as embedded pointers and hypertext links, and such other information as the Register of Copyrights may prescribe by regulation. According to this definition, CMI includes digital watermarking, a process whereby information, such as the author's identity and address, date of the work, and permitted uses of the work, is embedded into a digital work. Other forms of digital watermarking use a mark that is destroyed if an image is tampered with. However, information concerning users of works is explicitly excluded.

Section 1202(d) provides that Section 1202 is subject to a general exemption for law enforcement, intelligence and other government activities. Section 1202(e) provides that the liability of broadcast stations and cable systems

for removal or alteration of CMI is limited in certain circumstances where there is no intent to induce, enable, facilitate or conceal an infringement.

Any person injured by a violation of Section 1201 or 1202 has standing to bring a civil action in Federal court. 17 U.S.C. §1203. Section 1203 gives courts the power to grant a range of equitable and monetary remedies similar to those available under the Copyright Act, including statutory damages. Courts also have discretion to reduce damages in the case of innocent violations, where the violator proves that it was not aware and had no reason to believe its acts constituted a violation. Section 1203(c)(5)(A) provides special protection to nonprofit libraries, archives and educational institutions, which are entitled to a complete remission of damages where a qualifying entity had no reason to know of the violation.

Finally, a willful violation of Section 1201 or 1202 for purposes of commercial advantage or private financial gain is a crime. Under Section 1204, criminal penalties of up to a \$500,000.00 fine or five years imprisonment can be imposed for a first offense. Subsequent offenses can bring penalties of up to a \$1,000,000.00 fine or up to ten years imprisonment. Section 1204(b) exempts nonprofit libraries, archives and educational institutions from criminal liability.

In United States vs. Elcom Ltd, 203 F.Supp.2d 1111 (N.D. Cal. 2002) the Court rejected a constitutional challenge of the DMCA by a business accused of criminal anti-circumvention. In Elcom the Defendant made and sold software used to remove certain types of technological restrictions, that prevented users

from printing or making copies of the file. In upholding the indictment the Court rejected the Defendant's argument that the DMCA violated the due process clause of the Fifth Amendment, the First Amendment, and the Intellectual Property clause.

3. **DMCA Title II – The Online Copyright Infringement Liability Act**

In an attempt to address concerns that third party copyright liability would thwart growth of the Internet the 105th Congress passed, as Title II of the DMCA, the "Online Copyright Infringement Liability Limitation Act" adding section 511 to the Copyright Act. Section 512 attempts to strike a balance between the needs of content owners and Internet service providers by providing qualified Internet Service Providers with protection from certain types of third party copyright infringement liability while requiring Internet Service Providers to assist content owners in curtailing Internet copyright infringement.

If the multiple, technical requirements of Title II of the DMCA are met, interactive web sites, portals, Internets, search engines, Internet service providers and other qualifying "Service Providers"¹⁶⁴ may now enjoy safe harbor protection (actually a type of limited immunity) from liability for damages, costs and

¹⁶⁴ The Act applies to *Service Providers*, a term defined as entities that offer the transmission, routing, or provision of connections "for digital on-line communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material sent or received;" or that provide "on-line services or network access," or operate facilities therefor. Due to the breadth of the term "Service Provider" many entities which are not in the business of providing online services have the potential to enjoy the protections of Title II. See, for example, A& M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001), discussed above.

attorneys' fees in connection with third party copyright infringement liability.

Because the law is intended to protect Service Providers in situations where their infringing conduct is passive rather than active, if a Service Provider posts or publishes the infringing content on its own, the protections of the DMCA are not available.

Under Title II qualified Service Providers enjoy virtual immunity from copyright infringement liability in connection with 1) transmitting; 2) caching; 3) storing or 4) linking to infringing content posted or published on their systems by third parties. In addition, qualified Service Providers can avoid all liability for removing or blocking access to allegedly infringing content.¹⁶⁵ This aspect of Title II's immunity provides tremendous incentive to Service Providers to remove or block access to ostensibly infringing content and according to some has an undue chilling effect on the dissemination of content.

To qualify for protection a Service Provider must¹⁶⁶: 1) adopt and reasonably implement a policy whereby it will terminate in appropriate circumstances the accounts of repeat infringers; 2) inform its users of its policy; and 3) not interfere with "standard technical measures" used by content owners to

¹⁶⁵ The exemptions from liability created by Title II are additional to any defense that a Service Provider might have under copyright law or any other law. 17 U.S.C. §512(1).

¹⁶⁶ However, a Service Provider need not monitor its service or affirmatively seek out information regarding potential infringing activity in order to qualify for protection under Title II (except as part of "standard technical measures" provision of Title II). Furthermore, Title II provides that Service Providers do not have to access, remove, or block material in order to qualify for its exemptions if such action is prohibited by law (i.e., under the Electronic Communications Privacy Act). 17 U.S.C. §512(m).

identify and protect copyrighted works. Such technical measures include, digital watermarks or technological means for preventing copying of work.

Finally, Title II limits the liability of nonprofit institutions of higher education that act as a Service Provider for the infringing acts of their faculty and graduate students when performing teaching or research functions.

B. Trademarks and the Internet

1. Domain Names and Trademarks

Cyberspace has no physical boundaries or location and no limitations other than the number and power of the millions of interconnected computers that make up the Internet. A person's space in cyberspace, one's domain, if you will, is both identified and located by the use of a domain name. It is the collective equivalent of one's telephone number, mailing address and storefront in the physical world.

Domain names are one of a kind of sets of words that are translated, through a computer directory, into Internet protocol numbers (IP numbers), which in turn correspond to and serve to identify each computer, or server, that is linked in the global Internet network. IP numbers allow computers on the Internet to contact and communicate with each other.

Because domain names are observed by humans as letters and words (whereas computers read the corresponding IP numbers), they can be used to convey information about the subject Internet site including information regarding the source, sponsorship or affiliation of any goods or services sold, or advertised

through the site. Domain names therefore share many of the attributes of traditional trademarks and the use of a domain name that is likely to cause confusion as to the source, sponsorship or affiliation of goods or services may implicate rights protected under trademark and unfair competition laws.

The situation is complicated by two overriding realities that national trademark legal regimes never had to deal with. First, the current domain name system can only accommodate a single use of a particular domain per TLD where, in the physical world, the same or similar mark can be used to identify a number of disparate products and services. For example, there can be separate marks for Acme Hardware, Acme Dynamite, Acme Parachutes, Acme Bicycles, etc., but there can be only one Acme.com. Second, the Internet is global. There are no national borders as there are to delimit national trademark regimes in the real world. So, whereas Acme of New York only had to worry about other U.S.-based Acmes under the Lanham Act, in cyberspace, Acme of New York also has to concern itself with Acmes based in Moscow, Papeete and Timbuktu.

Further complicating the situation is that domain name registration is handled on a first come, first assigned basis that does not take into account whether the requested domain name corresponds to a registered trademark or service mark or whether the applicant has the better right to use and display the applied-for name.

As a result of the fact that many businesses were slow to appreciate the commercial value of having a domain name that corresponds to their trademarks,

numerous famous, and not so famous, marks have been registered as domain names by persons with no interest in the corresponding mark. Sometimes the registration is innocent. Many times it is willful.

Cyberspace has brought us the new torts of cyberquatting and cyberpiracy. Cybersquatters seek to profit by reserving domain names they don't intend to use commercially for later resale to the owners of trademarks to which the domain name relates. Once a cybersquatter has his/her desired domain name registered, no one else can obtain the exact domain name with the same TLD.

Cybersquatters can thus block a trademark owner from registering its own mark as a domain name, holding the domain name hostage in return for the payment of ransom. The owner of the domain name "abc.net" reportedly demanded \$350,000 to relinquish control of the name and rejected an offer of \$100,000. *See* Sougata Mukherjee, Trademark Firms Battle for "Net Domain," *Pacific Business News*, March 17, 1997, at 23.

According to the other cyber tort sometime referred to as cyberpiracy, one party actively uses a domain name that is the same or similar to another's established trademark in order to advertise and/or to sell its own goods and services and trade on the goodwill and recognition value of the established mark. One of the earliest examples of this type of tort is the case of MTV Networks v. Curry, 767 F. Supp. 202, 203-04 (S.D.N.Y. 1994). Adam Curry, a former MTV "Video Jockey," registered the domain name MTV.com and used it to provide music news and information services similar to those furnished by MTV. MTV

sued Curry claiming, among other things, trademark infringement. In Brookfield Communications, Inc. v. West Coast Entertainment Corp., 174 F.3d 1036 (9th Cir. 1999), defendant had registered and was using the domain name moviebuff.com, a domain name identical to plaintiff's federally registered MovieBuff trademark, in order to misappropriate plaintiff's goodwill and customer base.

a. Settlement of Domain Name Disputes. When domain name piracy and cyberquatting first arose, trademark holders were generally limited to challenging such conduct under the remedies available through the Lanham Act. In 1999, two new legal tools came onto the scene: the Anticybersquatting Consumer Protection Act ("ACPA") of 1999, a federal law much of which is codified in § 43(d) of the Lanham Act; and the Uniform Dispute Resolution Policy ("UDRP") of 1999, which is a contractually mandated ADR procedure of ICANN. In 2001, the Hawaii Legislature passed a state anti-cyberpiracy bill that provide penalties under state law for the bad faith registration of domains names that are identical or confusingly similar to another's personal name.

(1) Pre-ACPA Domain Name Litigation

Under the Lanham Act. Trademark owners have used Sections 32, infringement of registered marks, 43(a), infringement of unregistered marks and other conduct constituting unfair competition, and 43(c), infringement of famous marks by dilution, of the Lanham Act to combat cybersquatters and pirates and other

domain name holders whose domain names infringe upon, or dilute, established trademarks and service marks.

In Cardservice Int'l v. McGee, 950 F. Supp. 737 (E.D. Va. 1997), the plaintiff alleged trademark infringement, unfair competition and dilution claims due to the defendant's use and registration of the domain name "cardservice.com." The plaintiff and defendant both provided credit and debit card processing services. The plaintiff had registered the trademark "Cardservice International" with the USPTO in 1994. The defendant, however, registered the domain name "cardservice.com" in 1995 with NSI and advertised merchant card services over a Uniform Resource Locator ("URL") incorporating this domain name. The plaintiff sued when the defendant refused to relinquish the domain name. The trial court held that the defendant violated §§ 32 and 43 of the Lanham Act. Specifically, the defendant's use of the domain name created a likelihood of confusion between the plaintiff's registered mark and the defendant's use of the domain name on the Internet:

McGee's use of the "cardservice.com" and "Card Service" is likely to cause confusion. It is clear that McGee's use of "cardservice.com" and "Card Service on the Caprock" are strikingly similar to Cardservice International's registered mark. . . . The use of the term "cardservice" in Defendant's domain name exactly duplicated the registered mark "Cardservice." Further, both parties are using the internet as the facility to provide their services.

Id. at 741.

Under general principles of trademark law, not every use of an identical mark by multiple parties will cause confusion. If the subject goods or services offered are sufficiently different, actual or potential confusion will not be an issue. This concept is equally applicable to domain name disputes. *See, e.g. Avery Dennison Corp. v. Sumpton*, 189 F.3d 868 (9th Cir. 1999)(registration of personal name domains for license to persons having such names, without evidence of intent to trade on trademark owner’s value and goodwill, does not establish infringement or dilution); and *Bigstar Entertainment v. Next Big Star*, 54 U.S.P.Q.2d 1685 (S.D.N.Y. 2000) (defendant’s use of the domain name “nextbigstar.com” does not infringe plaintiff’s mark and domain name “bigstar.com” where there the parties offer substantially different products and there was no evidence of bad faith on the part of defendant or that defendant was attempting to trade on the goodwill of the plaintiff’s mark of site).¹⁶⁷

On the Internet, he who hesitates is lost. Hasbro, a long time proprietor of toys and games, learned this lesson all too well when it finally woke up and decided to seek registration of the domain name “clue.com” for use in connection

¹⁶⁷ Compare *Interstellar Starship Services, Ltd. v. Epix, Inc.*, 983 F. Supp. 1331 (D. Or. 1997), wherein the trial court held, in the first instance, that the use of the Internet website “expix.com” by plaintiff theatre group to publicize the “Rocky Horror Picture Show” is not likely to confuse customers seeking to purchase computer hardware and software from defendant owner of the federally registered mark EPIX. On a first appeal, the Ninth Circuit remanded the case holding there was a material issues of fact whether or not a likelihood of confusion existed. 184 F.3d 1107 (9th Cir. 1999). On remand, the district court found likelihood of confusion, enjoined plaintiff theatre group from using its <epix.com> domain name, but refused to order a transfer of the domain name to defendant trademark owner. Because there had been no evidence of bad faith on the part of the plaintiff, defendant trademark owner was not entitled to the transfer of the domain name under the ACPA. 304 F.3d 936 (9th Cir. 2002).

with its popular game “Clue.” It discovered that a computer network consulting company doing business as “Clue Computing” had already registered the “clue.com” domain name. In Hasbro, Inc. v. Clue Computing, Inc., 66 F. Supp. 2d 117, 1999 (D.Mass. 1999), the court rebuffed Hasbro’s infringement claim, concluding that Hasbro had failed to demonstrate that there was a likelihood that consumers would confuse Clue Computing’s computer website with Hasbro’s game. This case demonstrates that when two parties have equally cogent claims to a particular domain name, based upon use of the name as a trademark, the first to register the domain name will generally win.

The holders of famous trademarks need not demonstrate a likelihood of confusion under § 43(c) of the Act. Rather, a defendant is liable for dilution if its use of a domain name causes the blurring of the distinctiveness of the famous trademark at issue or a tarnishing of the trademark's goodwill. In Intermatic Inc. v. Toeppen, 947 F. Supp. 1227 (N.D. Ill. 1996), the plaintiff was a nationally known manufacturer and distributor of electronic products, which it has sold since 1941 under the name and trademark INTERMATIC. In 1995, Intermatic attempted to register its trademark as a domain name but discovered that the defendant had already registered "intermatic.com." Intermatic sued in federal court for (1) trademark infringement under § 32; (2) unfair competition under § 43(a); (3) dilution under § 43(c); and (4) other related state and common law causes of action. The court defined the issue as "whether the owner of the Intermatic trademark may preclude the use of the trademark as an Internet domain

name by defendant Toeppen, who had made no prior use of the Intermatic name prior to registering it as an Internet domain name." *Id.* at 1233.

After finding that plaintiff's mark was "famous" under Section 43(c), the court granted Intermatic's motion for summary judgment on the dilution claim. The court denied summary judgment on the remaining causes of action because the court concluded there were questions of fact regarding the likelihood of confusion issue.

Section 43(c) requires proof that the mark is "famous" and that the domain name holder commercially used the mark in commerce, thereby diluting the distinctiveness of the mark. In *Intermatic*, the defendant did not dispute that the Intermatic mark was famous. Furthermore, the court held that Toeppen had engaged in a "commercial use" in interstate commerce which, ironically, was the business of cybersquatting:

Toeppen's intention to arbitrage the "intermatic.com" domain name constitutes a commercial use. At oral argument Toeppen's counsel candidly conceded that one of Toeppen's intended uses for registering the Intermatic mark was to eventually sell it back to Intermatic or to some other party. Toeppen's desire to resell the domain name is sufficient to meet the "commercial use" requirement of the Lanham Act.

Id. at 1239.

The court held that this use diluted Intermatic's mark in two ways. First, Toeppen's domain name registration precluded the plaintiff from using its mark as a domain name and thereby "lessened the capacity of Intermatic to identify and distinguish its goods and services by means of the Internet." *Id.* at 1240. Second,

Toeppen diluted the Intermatic trademark by using the mark on his own web page, thereby placing Intermatic's name and reputation at "Toeppen's mercy and [having it] associated with an unimaginable amount of messages on Toeppen's web page." *Id.*¹⁶⁸

(2) Litigation of Domain Name Disputes

Under the ACPA. ACPA became effective upon enactment and applies to all domain names registered before and after November 29, 1999. ACPA gives trademark owners civil remedies against cybersquatters and pirates. Section 43(d)(2) of ACPA is ground breaking in that it provides for *in rem* actions to be brought against the offending domain name itself.¹⁶⁹ This provision gives trademark owners the ability to obtain limited relief despite the court not being in a position to take jurisdiction over the person of the cybersquatter, as is the case

¹⁶⁸ See also, *Hasbro, Inc. v. Internet Entertainment Group, Ltd.*, No. C96-130WD, 1996 WL 84853 (W.D. Wash., 1996) (enjoining defendant's use of the domain name "CANDYLAND.COM" in connection with a sexually explicit web page due to such use diluting by tarnishment Hasbro, Inc.'s Candy Land trademark for the children's board game.); *Toys "R" Us, Inc. v. Akkaoui*, No. C96-3381CW, 1996 WL 772709 (N.D. Cal. 1996) (enjoining defendant's use of "ADULTSRUS.COM" domain name in connection with the sale of sexual products and devices due to likely dilution by tarnishment of plaintiff's famous family-oriented "TOYS "R" US" marks). Note, however, that the holdings in these cases may need to be re-examined in light of the Supreme Court's construction of the federal dilution statute in *Moseley v. V. Secret Catalogue*, 2003 WL 716801 (March 4, 2003), discussed in Section III above.

¹⁶⁹ *In rem* actions must be brought in the judicial district where the domain name registry, registrar or other relevant domain name authority is located. 15 U.S.C. § 43(d)(2)(A). Attempts to instead bring such actions in a district convenient to the plaintiff, based upon declarations provided by NSI that are deposited with the court, have failed. See, e.g., *FleetBoston Financial Corp. v. FleetBostonFinancial.com*, 138 F.Supp. 2d 121 (D. Mass. 2001). Where a domain name registrant transfers a domain name from a domain name registrar in the U.S. to one outside the U.S., an *in rem* actions may still be maintained under the ACPA in the district where the domain name "registry" is located. *Cable News Network, L.P. v. CNNEWS.COM*, 162 F.Supp.2d 484 (E.D. Va. 2001)(discussion of distinction between domain name registries and domain name registrars, footnote 4 at 486).

with cybersquatters located outside the U.S. and also where cybersquatters evade identification and service of process by registering domain names under aliases or by listing false contact information in the domain name registration record.

ACPA provides that domain name registrars and registries cannot be held liable for registering a domain name, unless they acted in bad faith. By way of remedies, the ACPA allows courts to cancel or transfer a domain name in all cases, and in cases of bad faith registrations made after the effective date of the act, to grant statutory damages of up to \$100,000 per domain name, together with costs and attorney's fees.¹⁷⁰

The ACPA, in § 43(d)(1)(A), imposes civil liability on any person who (1) with bad faith intent to profit from another's trademark; (2) registers, traffics in, or uses a domain name, that is (3) identical or confusingly similar to that mark or, in the case of a famous mark, dilutes the mark. In deciding if a domain name has been registered with the requisite bad faith intent, ACPA sets forth the following nine non-exclusive factors, in §§ 43(d)(1)(B)(i)(I)-(IX), to be considered by a court:

1. Does the domain name registrant possess any trademark or other intellectual property rights in the domain name?
2. Does the domain name consist of the registrant's legal name or commonly-used nickname?

¹⁷⁰ In cases based on *in rem* jurisdiction, remedies are limited to cancellation or transfer of the offending domain name.

3. Has the registrant made any prior use of the domain name in connection with the bona fide offering of goods or services?
4. Has the registrant made a bona fide noncommercial or “fair” use of the mark in a site accessible under the domain name?
5. In registering or using the domain name, did the person intend to divert consumers away from the trademark owner’s web site?
6. Has the registrant offered to transfer or sell the domain name at issue to the mark owner or any third party and what was the person’s prior conduct in this regard?
7. Has the registrant provided false contact information in the domain name registration record and what was the person’s prior conduct in that regard?
8. Has the person registered or acquired multiple domain names that it knows infringe or dilute others’ marks?
9. Is the mark used in the domain name distinctive or famous?

Cases in which trademark owners have successfully used the ACPA to obtain relief include Sporty’s Farm v. Sportman’s Market, 202 F.3d 489 (2d Cir. 2000), *cert. denied*, 530 U.S. 1262 (2000), 147 L.Ed. 2d 984, wherein the court disbelieved defendant’s explanation that it had selected the domain name “sportys.com” because “Spotty” was the name of a dog belonging to the company’s principal and where defendant, plaintiff’s competitor, had made no good faith use of the domain name; Shields v. Zuccarini, 54 U.S.P.Q.2d 1166 (E.D. Pa. 2000), wherein the defendant admitted having registered the domain names “joes-cartoon.com” and “joecarton.com” to divert traffic intended for plaintiff’s, creator and owner of the Joe Cartoon cartoons, “joesartoon.com” website; Virtual Works, Inc. v. Volkswagen of America, Inc., 238 F.3d 264 (4th

Cir. 2000), wherein the court held registering the domain name “vw.net” knowing it could cause confusion with the Volkswagen trademark, coupled with an offer to sell that expired in 24 hours, was sufficient to establish bad faith within the meaning of the act; and Ford Motor Co. v. Lapertosa, 126 F.Supp., 643 (E.D. Mich. 2001), wherein defendant’s registration and use of the domain name “fordrecalls.com” to point to a site that sold pornographic materials was not cured of bad faith by use of the suffix “recalls”, considering the suffix is commonly used with reference to commercial products particularly in the auto industry.

Recent APCA cases have provided additional guidance regarding the scope and utility of the ACPA. In Harrods Limited v. Sixty Internet Domain Names, 302 F.2d 214 (4th Cir. 2002), the court clarified the broad scope of ACPA *in rem* actions holding that such actions are not limited to claims of bad faith registration with intent to profit but may also be used in cases of certain federal infringement and dilution claims. In Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona, 189 F.Supp.2d 367 (E.D. Va. 2002), the court clarified that trademark rights enforceable under the ACPA were not limited to those arising under U.S. law. The court there applied the ACPA against an U.S. corporation that had registered the domain name <barcelona.com> in bad faith to enforce plaintiff city’s trademark rights that arose and were construed under Spanish law. Finally in Bird v. Parsons, 289 F.3d 865 (6th Cir. 2002), the court held that a domain name registrars that merely registered an infringing domain name at the behest of its customer, and a domain name auction website that

merely offered the infringing domain name for sale at the behest of its customer, had not engaged in bad faith registration, use or trafficking of a domain name within the meaning of the ACPA.

“Yourcompanynamesuck.com” cases have gone both ways under the ACPA. In Morrison & Foerester v. Wick, 94 F.Supp.2d 1125 (D. Colo. 2000), the court concluded that defendant’s conduct, where he had engaged in the practice of registering “yourcompanysuck.com” domain names to “get even” with various companies, was not protected parody under the First Amendment. Under the ACPA, the court found in favor of plaintiff law firm, whose name had been the target of the defendant’s conduct. On the other hand, in *Lucent Technologies vs. lucentucks.com*, 54 U.S.P.Q.2d 1653 (E.D. Va. 2000), the court observed that a successful showing that the domain name was effective parody or that the site served to promote critical commentary would seriously undermine the requisite elements for an ACPA claim.

While the ACPA provides a powerful weapon for trademark owners, liability under the law is clearly limited to situations where the registrant has acted in bad faith. So, for example in Cello Holdings v. Lawrence Dahl Companies, 89 F. Supp. 2d 464 (S.D.N.Y. 2000), the court could not determine whether defendant had acted in bad faith in a case brought by the owner of the Cello trademark, in the business of selling high end stereo equipment, where the defendant had attempted to register domain names of a number of different

musical instruments and sell them to a variety of potential purchasers.¹⁷¹

Accordingly, infringement and dilution actions pursuant to §§ 32, 43(a) and 43(c) of the Lanham Act will continue to be more appropriate in cases where the defendant may not have had in mind plaintiff or its trademark when the defendant registered and began using the domain name.

(3) Resolution of Domain Name Disputes

Under the UDRP. The UDRP was approved by ICANN in October of 1999, and has since that time the procedure has been utilized to successfully address thousands of domain name challenges. The UDRP is essentially arbitration held over the Internet. The proceedings take two to three months to complete. There are presently five accredited UDRP providers (arbitration centers), some with jurisdictional restrictions as to the disputes they handle. The most popular UDRP provider appears to be the World Intellectual Property Organization (“WIPO”) located in Geneva, Switzerland. More information about the UDRP, including links to UDRP providers, policy, rules, supplemental rules, cases, and decisions, can be found at <http://www.icann.org/udrp/>.

Because they are simplified and fast, UDRP proceedings are considerably cheaper than traditional litigation. Also, there are no jurisdictional issues because

¹⁷¹ See also *Interstellar Starship Services, Ltd. v. Epix, Inc.*, 305 F.3d 936 (9th Cir. 2002), wherein the Ninth Circuit affirmed the trial court’s ruling enjoining the domain name registrant from using the <epix.com> domain name but refusing to order the name transferred to the trademark holder. Because there had been no evidence of bad faith on the part of the plaintiff when registering the domain name, the remedy of transfer of the domain name under the APCA was not available. No similar remedy was provided by those other portions of the Lanham Act pursuant to which the trademark holder had prevailed.

the domain name registrants all agree to submit to an ICANN mandated ADR procedure when accepting the terms and conditions found in the domain name registration agreements. Therefore, UDRP challenges are particularly useful to U.S. trademark holders where the owner of the infringing domain name resides outside the U.S.

UDRP proceedings can be used against registrants of the generic and some restricted TLDs administered by ICANN, to wit, the traditional .com, .net., and .org TLDs and the new .area, .biz, .coop, .info, and .museum TLDs. Country code TLDs are governed and administered by governmental or government approved private bodies located in the relevant country. In some cases these countries have agreed to allow disputes to be decided by ICANN approved providers under the UDRP. In other cases, the administrative bodies that administer the country code TLD is the sole arbiter of disputes pertaining to that TLD.¹⁷²

UDRP proceedings will result in the cancellation or transfer of a domain name if all of the following elements can be established:

- (1) the registrant's domain name is identical or confusingly similar to a trademark or service mark in which the complainant has rights;

¹⁷² Currently, WIPO lists 32 countries that have agreed to have disputes concerning their TLDs decided by WIPO administered UDRP proceedings. One of the accredited UDRP providers, the Asian Domain Name Dispute Resolution Centre, with a presence in both China and Hong Kong, is the sole provider for domain name disputes implicating the China .cn country code, and the Hong Kong .hk country code.

(2) the registrant has no rights or legitimate interest with respect to the domain name; and

(3) the registrant's domain name has been registered *and* is being used in bad faith.

The key, bad faith element may be established through demonstrating one or more of the following four non-exclusive factors:

(1) the registrant registered the domain name primarily for the purpose of selling it to the owner of the trademark or a competitor for valuable consideration in excess of out of pocket costs;

(2) the registrant has registered the domain name in order to prevent the trademark owner from reflecting the mark in a corresponding domain name, provided there is a pattern of such conduct;

(3) the registration was obtained primarily to disrupt the business of a competitor;

(4) the use of the domain name is intended to attract, for commercial gain, users to the web site by creating a likelihood of confusion with respect to the complainant's mark.

Although UDRP proceedings are fast and relatively inexpensive, they have a number of disadvantages. First, no monetary damages or attorney's fee awards are possible. Second, either party may challenge the results of the UDRP proceeding in court. In Weber-Stephen Products v. Armitage Hardware, 54 USQPQ2d 1766 (N.D. Ill, 2000), the court confirmed that it was not bound by the UDRP proceeding and failed to clarify what weight it might accord the UDRP decision.¹⁷³ Accord Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de

¹⁷³ Court actions may be brought at any time, before, during or after institution of a UDRP proceeding. Broadbridge Media v. Hpercd.com, 55 U.S.P.Q.2d 1426 (S.D.N.Y. 2000).

Barcelona, 189 F.Supp.2d 367, 371 (E.D. Va. 2002)(the district court held an earlier rendered WIPO UPDR decision was entitled to “no weight” in the context of a subsequent lawsuit brought under the ACPA intended to address the very same issue). Third, like the ACPA, the UDRP is only appropriate where there is clear bad faith conduct in both the registration and use of the domain name. Cases of unintended infringement of trademarks by domain names are not cognizable under the UDRP. Finally, there is no discovery and no opportunity to rebut factual contentions made by the registrant in its answering brief. Accordingly, if material facts are in dispute, it is likely that the UDRP panel will be unable to conclude that bad faith has been sufficiently demonstrated.

There is no requirement that a party be represented by a lawyer in UDRP proceedings, and Internet-oriented non-lawyers (geeks) have developed a fair competence in the area. Filing fees range from \$1,000 to \$2,000 for a dispute concerning a single domain name determined by a single member arbitration panel. Either party can request a three member panel for an additional fee. Arbitrators tend to be highly qualified professionals, from all over the world, with expertise in Internet and trademark law. UDRP decisions reflect non-mandatory precedent in UDRP proceedings, as does relevant domestic law.

(4) Hawaii’s CyberSquatting Act. In 2001,

the Hawaii State Legislature passed S.B. 1276 entitled a “Bill for an Act Relating to Cybersquatting”.

The purpose of this measure is to prohibit the bad faith registration of domain names on the Internet.

* * *

Your Committee finds that since its inception, the Internet has been a largely unregulated industry. As a result, many of the rights we have under law are susceptible to intrusion by other parties. Further, a cybersquatter can harm an individual or a company not just by demanding money for the domain name site, but by putting information on the site that could tarnish or disparage an individual or a company’s goodwill or create confusion as to the source, sponsorship, affiliation, or endorsement of the site.

S.B. 1276, Reg. Sess. 2001, Senate Stand. Com. Rep. No. 505.

The Act, based upon an earlier enacted California “Cyber Piracy Law”, provides protection for marks:

A person shall be liable in a civil action by the owner of any distinctive mark registered and used in Hawaii, without regard to the goods or services of the parties, if that person in bad faith registers, traffics in, or uses a domain name that is identical or confusingly similar to the mark;

as well as for personal names:

Any person who in bad faith registers a domain name that consists of the name of another living person, or a name substantially and confusingly similar thereto, without that person’s consent, shall be liable in a civil action by the person.

Section 481B-22(a) and (b), Haw. Rev. Stats. Missing from the Hawaii law is the *profit* part of the “bad faith intent to profit” ACPA element. This omission was intentional.

Unfortunately, federal law provides inadequate protection for personal names. To claim protection under the federal law, a person must show that the cybersquatter intended to profit from the cybersquatting activity. However, a cybersquatter could cause harm without intending to profit by placing a person’s name on the Internet, along with information that could tarnish or disparage the person.

S.B. 1276, Reg. Sess. 2001, House Stand. Com. Rep. No. 931.

Like the ACPA, the Hawaii law enumerates a number of non-exclusive factors that may be considered by the court as evidence of bad faith intent. The factors are essentially the same as the factors found in the ACPA, with the exception of the Hawaii law: (1) omitting the factor focusing on whether the mark is distinctive and famous under the ACPA; and (2) adding a factor, namely that “[t]he person sought or obtained consent from the rightful owner to register, traffic in, or use the domain name.” Haw. Rev. Stat. § 481B-23(a)(10).

The Act includes exceptions, found in § 481B-24, which appear designed to exempt from liability domain name registrations that include material protected by federal copyright and trademark law, and acts performed by domain name registrars that would otherwise be actionable under the law.

Remedies under the bill include injunctive relief, forfeiture, cancellation or transfer of the domain name to the owner of the mark; equitable relief; compensatory damages; punitive damages; costs and attorneys fees; or, at

claimant's option in lieu of compensatory and punitive damages, statutory damages in the amount of \$1,000 or threefold damages, and costs and attorneys fees.

Hawaii's new cybersquatting law has not yet been construed. Its application would appear most appropriate to cybersquatters operating from Hawaii and/or where a Hawaii court had jurisdiction over the cybersquatter and the claimant had a presence here. In such cases the Hawaii Act would provide remedies in addition to, and not in lieu of, those available under the ACPA.

2. **On-line Trademark Infringement**. In Sega Enter., Ltd. v. MAPHIA, 948 F. Supp 923 (N.D. Cal. 1996), a video game manufacturer sued the operator of a BBS for, *inter alia*, trademark infringement for permitting the unauthorized uploading and downloading of its games on his BBS. The court found that the BBS system operator had engaged in unfair competition under the Lanham Act and had willfully infringed the plaintiffs' trademark "Sega" by using the mark to identify games that were available for BBS users to copy. The court held that the bogus games were substantially identical to the genuine games; the marks were identical; and that confusion was likely regarding whether the bogus games were sponsored by, or affiliated with, the plaintiff.

Willful infringement was found because: 1) the operator had created a space on his BBS that was entitled "Maphia-Sega;" 2) he used, or knowingly allowed others to use, the word "Sega" to identify Sega games on the subject BBS; 3) he solicited others to upload games to this BBS; 4) he was aware that the

"Sega" trademark appeared when games downloaded from his BBS were played; 5) his business sold game copiers that played these games; 6) he had a policy of providing free downloads to each customer; and 7) he knew that Sega games were being uploaded and downloaded from his BBS. These activities convinced the court the defendant intended to profit by using the mark and that such intention amounted to willfulness. The court also noted that, in the Ninth Circuit, a defendant's knowing adoption of a mark similar to the plaintiff's raises a presumption of confusion.

In Sega Enter, Ltd. v. Sabella, 1996 WL 780560 (N.D. Cal. 1996), the court was faced with facts similar to those in *Sega v. MAPHIA*. In the *Sabella* case, Sega alleged, among other things, that Sabella was liable for federal trademark infringement because her use of the "Sega" mark on her BBS caused a likelihood of consumer confusion. Sabella contended that she was not liable because she herself never used the mark, nor was she aware that the mark was being used on her BBS. Summary judgment on direct trademark infringement and false designation under § 43(a)(1) of the Lanham Act was denied because the court found that a material issue of fact existed as to whether the operator herself adopted, used or authorized use of the mark. The court noted, however, that the evidence may establish contributory trademark infringement, which only requires a reason to know of the infringing activity.

If you've ever wondered whether terms familiar to millions of Internet users like "You Have Mail", "Buddy List" and "IM" (representing "Instant

Messaging”) are protected by trademark law, they apparently are not. In America Online, Inc. v. AT&T Corp., 64 F. Supp. 2d 549 (E.D.Va. 1999), the court found that such ubiquitous cyber-speak is generic and thus unprotectable as trademarks. In addition to granting the putative trademark infringer’s motion for summary judgment, the court dismissed AOL’s case and canceled its trademark registration for the mark “Buddy List.” AOL has not given up, however. In, American Online, Inc. v. Huang, 106 F.Supp.2d 848 (E.D. Va. 2000), AOL challenged defendant’s registration of the domain names “picq.com”, “picq.net” and “picq.org” as violative of AOL’s trademark rights in ICQ for its real-time messenger. As that case was dismissed for lack of jurisdiction over the person of the defendant, no decision on the substantive issues AOL raised was rendered.

In certain circumstances the use of another’s trademark on web pages will not constitute trademark infringement or unfair competition because the use is protected by the First Amendment or is otherwise deemed to be a fair use. So, for example, the use of the mark Bally for fitness clubs, used in its standard format and well as in the phrase Bally Sucks, throughout a non-commercial website intended for the lodging of complaints and criticism about the owner of the mark was held not to be actionable trademark infringement or dilution. Bally Total Fitness Holding Corp. v. Faber, 29 F.Supp.2d 1161 (C.D. Cal. 1998). Also, the use of a mark in a website to identify the origin and manufacturer of genuine used mopeds being offered for sale was held to be “nominative fair use” and not enjoined. Patmont Motor Werks, Inc. v. Gateway Marine, Inc., 1997 WL

811770 (N.C.Cal. 1997), relying upon the test for nominative fair use set down by the Ninth Circuit in New Kids on the Block v. News America Publishing, 971 F.2d 302, 307 (9th Cir. 1991).

3. **Metatags**. Internet search engines employ programs called "spiders" that search for and index websites, based upon proprietary methodologies, that are then searchable by websurfers. While different engines can yield different results for the same search criteria, most engines select sites based upon information contained in the text found within a particular site. After filtering out "stop words"¹⁷⁴, search algorithms index sites based upon the quantum of text that is deemed relevant to the search request. Repetitious use of key words and phrases can increase the quantum of potentially relevant text and therefore get the attention of search engines by giving a target site a high ranking. In addition, most engines give more weight to the early portions of a site's text. Consequently, in order to maximize the potential hits a site may receive, some website designers use a practice whereby key words and phrases are used as often as possible in the title page of a website.

Metatags are hidden HTML tags located within a site that provide information and instructions that are used by search engines. Because many search engines examine these metatags as well as the text within a site when they "rank" or "index" a site, the clever use of metatags can cause a site to receive a

¹⁷⁴ Such as "and", "a", "the", "of", etc.

high relevancy rating that it might not otherwise receive.¹⁷⁵ An interesting issue arises from the fact that metatags are not displayed on the user's screen when the page is "opened" by a browser. It is metatags' invisible nature that make their use either clever or unfair, depending upon one's perspective. (Metatags can be read by using the "view page source" command in a browser.)

Because the basis for a claim of trademark infringement is the likelihood of confusion resulting from a particular activity, when someone else's trademark is used in a metatag in a manner that tricks a search engine, it can be said that the search engine, and therefore its user, have been deceived. Even though the user may not be deceived after arriving at the site, the act of getting there can cause a likelihood of confusion as to the affiliation or connection between the target searched for and the target reached.¹⁷⁶

To the extent that metatags utilize another's "famous mark" in a way that dilutes the distinctiveness of the mark, such use may be actionable under the Federal Trademark Dilution Act. For example, if a search is conducted based upon a famous mark, and metatag use steers the searcher away from the target site, it can be argued that such use "lessens the capacity of the famous mark to

¹⁷⁵ Metatag abuse has led certain search engines to ignore repetitive metatags or disregard them entirely when indexing relevant sites in response to a search request.

¹⁷⁶ A related practice uses key words and phrases in text that is the same color as the pages on which it appears -- usually black text on a black page. Even though viewers do not see such key words, search engines do.

identify and distinguish" the goods or services of the mark's owner from the goods or services of another.

A significant case regarding the use of a competitor's trademark in a website's metatags is the 1999 Ninth Circuit decision in Brookfield Communications, Inc. v. West Coast Entertainment Corp., 174 F. 3d 1036 (9th Cir. 1999). It is an important decision because it makes clear that traditional trademark law applies in cyberspace. The court held that the use of a competitor's mark in a metatag, when there is no corresponding fair use in the display portion of the website, can result in "initial interest confusion" that can trigger liability under the Lanham Act.

It is always interesting to see how the courts apply traditional legal doctrines to cyberspace. Using the "information super highway" metaphor developed in the early days of the Internet, the court cast its analysis in the following terms:

Using another's trademark in one's metatags is much like posting a sign with another's trademark in front of one's store. Suppose West Coast's competitor (let's call it "Blockbuster") puts up a billboard on a highway reading – "West Coast Video: 2 miles ahead at Exit 7" – where West Coast is really located at Exit 8 but Blockbuster is located at Exit 7. Customers looking for West Coast's store will pull off at Exit 7 and drive around looking for it. Unable to locate West Coast, but seeing the Blockbuster store right by the highway entrance, they may simply rent there. Even consumers who prefer West Coast may find it not worth the trouble to continue searching for West Coast since there is a Blockbuster right there. Customers are not confused in the narrow sense: they are fully aware that they are purchasing from Blockbuster and they have no reason to believe that Blockbuster is related to, or in any way sponsored by, West Coast. Nevertheless, the fact that there is only initial consumer confusion does not alter

the fact that Blockbuster would be misappropriating West Coast's acquired goodwill.

174 F.3d at 1064.

The concept of "confusion" is, however, a bit clumsy because there is no source confusion in the sense that the diverted Internet surfer eventually knows whose site she is patronizing. The court nevertheless hit the nail on the head in reasoning that liability may be predicated upon the diversion of surfers, who are looking for the trademark owner's website, to the website utilizing the metatag. The metatag user improperly benefits from the goodwill that the mark holder has developed in his mark. Citing its earlier decision in the Dr. Seuss case¹⁷⁷, the court reiterated that the use of another's trademark in a manner calculated "to capture initial consumer attention, even though no actual sale is finally completed as a result of the confusion, may still be an infringement."¹⁷⁸ In a footnote, the court suggested the doctrine of initial interest confusion is of great utility in the

¹⁷⁷ In the context of a short story-poem about the OJ Simpson murder trial rendered through an attempted parody on Dr. Seuss's *Cat in the Hat* literary work, the Ninth Circuit affirmed the trial court's holding that where the unauthorized use of a mark is done for purposes of source identification, trademark rights will generally prevail over the First Amendment. *Dr. Seuss Enterprises v. Penguin Books USA, Inc.*, 924 F.Supp. 1559, 1574 (S.D. Cal. 1996), *aff'd*, 109 F.3d 1394 (9th Cir. 1997), *cert. denied*, 521 U.S. 1146 (1997).

¹⁷⁸ The doctrine of initial interest confusion has found favor among many courts in the offline environment, *see SecuraCom Consulting, Inc. v. Securacomm Inc.*, 984 F. Supp. 286, 298 (D.N.J. 1997); *Jordache Enters., Inc. v. Levi Strauss & Co.*, 841 F. Supp. 506, 514-15 (S.D.N.Y. 1993); *Television Enter. Network, Inc. v. Entertainment Network, Inc.*, 630 F. Supp. 244, 247 (D.N.J. 1986), but has also been rejected in Internet cases where the trademark use was "fair" or the likelihood of confusion not sufficient, *BigStar Entertainment, Inc. v. Next Big Star, Inc.*, 105 F.Supp.2d 185 (SDNY 2000); *Network Network v. CBS, Inc.*, 54 U.S.P.Q.2d 1150 (C.D. Cal. 2000).

online environment because trademark infringement via metatag usage does not lend itself to the traditional trademark analysis consisting of the eight factor test.

Another case to attack metatag use as a form of unfair competition, trademark dilution and trademark infringement is Oppedahl & Larson v. Advanced Concepts, 97 Civ. 1592 (D. Colo., July 23, 1997). The plaintiff in this case was an intellectual property law firm that maintained a website from which it provided information regarding intellectual property matters. The plaintiff alleged that it ran a search on the terms "Oppedahl" and "Larson" using a well-known commercial web browser that identified, among others, 11 different URLs contained on 3 different websites maintained by the defendant, an Internet marketing firm. When the plaintiff viewed these URLs to find the terms "Oppedahl" and "Larson" they did not appear in any portion of the visible text of the subject URLs. However, when the underlying source document, which generated the images viewable with a conventional web browser, was examined, the terms "Oppedahl" and "Larson" appeared eight times each on each URL. Based upon its evaluation of the underlying source documents, the plaintiff concluded that the URLs on the offending websites were using the "Oppedahl" and "Larson" marks to erroneously identify to search engines that these URLs related to services provided by the plaintiff. The plaintiff asserted that, without its consent, the defendant had adopted, used and caused to be used in interstate commerce a substantially identical mark in connection with identifying the source of the content of the defendant's web pages and that such use was misleading and

likely to cause confusion and mistake, and to deceive the public into falsely believing that the defendant's web pages were connected with or sponsored or authorized by the firm when in fact the defendant had no connection with the plaintiff. The Complaint further alleged that the defendant's misleading use of the subject mark constituted false advertising, false designation of origin, and false representation in, and affecting, interstate commerce in violation of § 43(a) of the Lanham Act.

In Insituform Technologies, Inc. v. Nat'l Envirotech Group, L.L.C., Civ. Action No. 97-2064 (E.D. La., Aug. 27, 1997), the defendant, a pipeline construction company agreed, by consent judgment, to delete references to Insituform Technologies, Inc., a competitor, from hidden codes on its website. The case was settled to avoid "protracted litigation" according to the defendant's counsel.

Playboy Enter., Inc. v. Calvin Designer Label, Civ. Action No. C-97-3204 (N.D. Cal., Sept. 8, 1997), is the first reported case to enjoin metatag use. In this case the court ordered a website operator to remove references to Playboy magazine from invisible coding on two adult-oriented websites. In granting a temporary restraining order, the court found it likely that Playboy would prevail on its trademark infringement claims.

Not all uses of another's marks on web pages, or in the pages' metatags, are necessarily infringing. In Playboy Enterprises Inc. v. Terri Welles, Inc. 78 F. Supp. 2d 1066 (SD. Cal. 1999), the court held that a former playmate of the year's

use of “Playmate of the Year” and other Playboy marks on a web page featuring the former playmate and in metatags used in conjunction with the site was a non-infringing “fair use.” Terri Welles was Playmate of the Year in 1981. On her website, which featured various information about Ms. Welles, including provocative photography, Ms. Welles identified herself as “Playmate of the Year 1981.” Other pages included a watermark consisting of “PMOY ‘81”. In order to obtain a priority listing on searches for the terms “Playboy” and “Playmate,” Ms. Welles utilized these same terms as metatags on her opening page. Ms. Welles disclaimed any current affiliation with Playboy by indicating on various pages that the subject site was not endorsed, sponsored by, or affiliated with Playboy Enterprises and that “Playboy” and “Playmate of the Month” are registered trademarks of Playboy Enterprises.

The trial court rejected Playboy’s request for a preliminary injunction, holding that Ms. Welles’ use of the subject marks were a “fair use”. 7 F.Supp.2d 1098 (S.D. Cal. 1998). The Ninth Circuit affirmed. 162 F.3d 1169 (9th Cir. 1998). On a subsequent motion for summary judgment filed by Ms. Welles, the court reiterated that her use of the subject marks was “fair” under § 33(b)(4) of the Lanham Act because her use was restricted to a description of her goods or services, was in good faith, and was used “otherwise than as a trademark.” Furthermore, the court held that Ms. Welles’ use was “nominative” under existing Ninth Circuit precedent. The court found that Ms. Welles had no viable alternative to the use of the term “Playmate of the Year 1981” or “PMOY ’81”;

that she used the subject terms only to the extent necessary to accurately identify herself as a Playmate of the Year; that she didn't use the Playboy logo or any other protected marks that weren't needed to make her website intelligible and identifiable to consumers; and finally that she did nothing to suggest or imply sponsorship or endorsement of her site by Playboy.

Ms. Welles' use of the subject marks as metatags was sanctioned because her use of said marks in the body of the website was fair. Because "fair use" is a defense to trademark infringement, including the "initial interest confusion" test adopted in *Brookfield v. West*, her use of the language in metatags was proper. Because "fair use" is also a defense to a claim of dilution, Playboy's dilution claim was also dismissed. The lesson to be learned from the Welles case is that if a mark is considered "fair" in the context of the displayed portion of a website, the use of the same mark in the site's metatags will likely not run afoul of the initial interest doctrine.

Given the possible exposure to liability, website designers should avoid this practice if improperly using another's mark in order to manipulate search engine results. Only use references to another's mark that are visible and allowed by consent or under principles of "fair use", including for purposes of identification and legitimate comparative advertising, comment and criticism.

4. Linking, Framing, Search Engine Practices, Pop-Up and Banner Ad Triggers. While the Worldwide Web (the "Web") is only a part of the Internet, it is the part that is used by most people and businesses. The

magic that makes the Web run is a little doodad called a "hypertext link," "hyperlink" or "weblink." A weblink is, in its simplest form, merely a connection between two websites that is created by HTML code on the "linker's" site that causes, when activated by a user, the user's browser to move to and display the "linked" page. Weblinks are activated through visual depictions located on a displayed web page as either a highlighted web address or other graphic symbol. When a user points a computer mouse on the weblink and clicks, computer code is activated that establishes a new connection to a different page or site thereby allowing mere mortals, unschooled in the complexities of computer code and the use of URL addresses, to move easily from one part of cyberspace to another.

"In-line linking" is a kind of hidden retrieval function that grabs stuff like text, photographs, drawings, video or sound from various sources and presents it to the user in a coherent manner. It works like this: HTML code on a web page instructs the user's browser to locate some image (like a photograph) on a third party's site, copy¹⁷⁹ the image to the user's temporary storage and display the image on some portion on the subject page. Through a process known as "framing," HTML code on a site can "control" the simultaneous display of materials from other websites on the user's browser screen (often in the outer margin of the displayed screen), thereby causing several sites to coalesce into what appears to be a single site. This function often obscures the true source of

¹⁷⁹ Although according to the *Arriba* case, no copy of the linked-to site is actually made. See discussion in the Internet and Copyrights above.

accessed information, and has led to legal challenges on a number of grounds including unfair competition.

With respect to whether or not there is a right to link, the prevailing view seems to be that simple, unadorned linking does not require permission. After all, "Freedom to link" is the credo of most netizens, and it is doubtful that the Web would have grown so incredibly vast so fast without such freedom. It can be argued that by putting a page on the Web, a party implicitly licenses others to link to it. In addition, First Amendment safeguards appear to prevent courts from entering injunctions against, or finding liability for, hyper-linking absent clear and convincing evidence that the link is intended to encourage unlawful conduct as opposed to protected speech. Universal City Studios, Inc. v. Reimerdes, 111 F.Supp.2d 294 (SDNY 2000)(finding in the context of a copyright case that the First Amendment would protect linking absent clear and convincing evidence that the link was intended to encourage others to obtain and use copyright circumvention technology prohibited by the Digital Millennium Copyright Act).

On the other hand, if a link implies an association or relationship between the linked sites, trademark rights are implicated. Accordingly, links that attempt to bypass the linked sites' home page, which often contain the sites' menus, advertisements, terms, and conditions, have caused controversy.

While hardcore netizens hold that linking to a site's internal pages is fair game, not everyone sees the situation like this. Certainly, Ticketmaster, the world's largest provider of computerized ticket distribution products and services,

does not think internal linking is fair game. As a part of the services it performs, Ticketmaster sells and markets tickets to various entertainment events through the use of the Internet. To engage in such sales and marketing, Ticketmaster operates a website that provides, among other things, listings of concerts across the United States. Because Ticketmaster's site allegedly averages over 1 million hits a month, links to its sites are extremely valuable to other commercial websites.

Microsoft entered into negotiations with Ticketmaster in the hopes that an arrangement could be reached whereby Microsoft would link its "Seattle Sidewalk" website to Ticketmaster's website. When negotiations failed to produce an agreement, Microsoft linked to Ticketmaster anyway. Some links went directly to internal pages of the website thereby circumventing the early pages of Ticketmaster's website, which display Ticketmaster's website terms and conditions, website contents and advertisements. In addition, Microsoft's links utilized Ticketmaster's trade symbols as the icon or "hot link" that users click on to go to the Ticketmaster site.

Ticketmaster decided not to adhere to the "freedom to link" credo and slapped Microsoft with a lawsuit. In Ticketmaster Corp. v. Microsoft Corp., 97 Civ. 3055 DDP (C.D. Cal, filed Apr. 28, 1997), Ticketmaster alleged that Microsoft's links to the internal pages of its site illegally appropriated and used Ticketmaster's trade symbols and diluted the commercial value of its site. Among other things, the Complaint alleged that Microsoft was feathering its own nest at Ticketmaster's expense and that it was, in effect, committing electronic piracy.

Ticketmaster argued that it had the right to maintain control of the manner in which others utilize and profit from its proprietary name, marks and services in cyberspace.

While the *Ticketmaster Corp. v. Microsoft Corp.* ultimately settled prior to offering the public guidance in the form of a published opinion, another case involving deep-links into the Ticketmaster site subsequently developed. In *Ticketmaster Corp. v. Tickets.com, Inc.*, 2000 Copr. L. Dec. ¶ 28,146, 2000 WL 1887522 (C.D. Cal. 2000), *aff'd*, 2 Fed. Appx. 741, 2001 WL 51509 (9th Cir. 2001), the trial court denied Ticketmaster's request for preliminary injunction holding that deep linking, by itself and without confusion as to source, is insufficient to establish unfair competition claims under the Lanham Act. Because at the time of the hearing on the preliminary injunction Ticketmasters had found a method (though only temporarily) to prevent deep links, the decision will not prevent unfair competition issues from being revisited in future deep-linking cases.

The issue of framing, as opposed to deep-linking, was raised in *Washington Post Co. v. Total News, Inc.*, 97 Civ. 1190 PKL (SDNY Feb. 20, 1997). The Washington Post and several other media giants sued Total News which ran a website that displayed content taken from the plaintiffs' various websites in a frame containing advertisements sold by Total News. This practice caused the plaintiffs' websites to appear not like plaintiffs intended, but in an altered form designed by Total News for its own economic advantage. When

Total News' website visitors clicked on one of plaintiffs' famous trademarks, the corresponding plaintiff's website was accessed. The plaintiff's site, however, did not then fill the screen as it would had the user accessed the plaintiff's site either directly or by means of a hyperlink from a website that did not "frame" the linked sites. Additionally, the plaintiff's URL did not appear at the top of the screen as it normally would. Instead, part of the plaintiff's site was inserted in a window designed by Total News to occupy only a portion of the screen. Masking part of plaintiff's site was the Total News "frame," which included the Total News logo, the Total News URL and third-party advertisements purchased from Total News.

Among other things, the complaint alleged that Total News' framing of the plaintiffs' content amounted to trademark infringement and dilution, false advertising, deceptive acts and practices and unfair competition. The legality of "framing" was never decided, however, as the case settled.¹⁸⁰

The linking issues are likely avoided by not using another's trademark as a hot link on a web page and by not linking to the internal pages of a website. Furthermore, proper designation and identification of the trademark owner is more likely to result in a determination that use of a mark is "fair".

The first court to tackle the issue of whether search engines and other services that trigger pop-up and banner ads based upon the user inputting certain

¹⁸⁰ In an English law case, where defendants both "scooped" newspaper headlines from and deep-linked into the stories of a competing on-line newspaper, the court enjoined defendants conduct holding that plaintiff had established a prima facie case of copyright infringement. *Shetland Times Ltd. v. Wills*, (Ct. of Session, Edinburgh, October 24, 1996), available at: <http://www.jmls.edu/cyber/cases/shetld1.html>.

trigger words can constitute trademark infringement and/or unfair competition was the Northern District of California in the context of Playboy Enterprises, Inc. v. Netscape Communications Corp., 55 F.Supp.2d 1070 (C.D. Cal. 1999). The trigger words being challenged there were “Playboy” and “Playmate” which Playboy claimed as its trademarks but which the court determined were being used by on-line surfers in the generic, as opposed to trademark, sense.

In parallel legal challenges brought in the United States and Germany by Estee Lauder, Inc. against Excite to enjoin the sale by Excite of the search term “Estee Lauder” to online fragrance discounters as banner ad triggers, the Germany court issued the requested injunction based upon finding Excite’s practice to be unfair, whereas the U.S. court refused the injunction and dismissed Estee Lauder’s action. The parties subsequently settled and, not surprisingly, Estee Lauder’s own banner ads now pop-up when entering the Estee Lauder trigger words into the Excite search engine.

C. Trade Secrets And The Internet

In two cases brought by the Church of Scientology, the courts have suggested that once information is posted on the Internet, it is not only available for public viewing, but the control over its dissemination is lost. Consequently, the information loses its trade secret status. This analysis stems from the fact that a critical element of a trade secret, as noted above, is that the information sought to be protected must actually be kept secret. If information is available on the Internet, however, it has the potential to reach millions of people.

In the case of Religious Tech. Ctr. v. Netcom On-Line Communications Serv., Inc., 923 F. Supp. 1231 (N.D. Cal. 1995), an affiliate of the Church of Scientology, Religious Technology Center ("RTC") filed suit seeking injunctive relief against one of its former members and his Internet service provider for placing some of the RTC's confidential information, known as the AT documents, in Internet news groups. RTC had to establish that the information sought to be enjoined from further distribution was in fact a trade secret. The court laid out a two part test to determine whether information is in fact a trade secret based upon the UTSA's definition as codified in the California statutes. Specifically, the information must "(1) have independent economic value to competitors; and (2) have been kept confidential." Id. at 1251-2. RTC was able to show that its works were a valued commodity and thus had the requisite economic value.

The court noted, however, that RTC failed to satisfy the second prong of the test since the AT documents were posted on the Internet. The court determined the documents lost their secrecy for trade secret purposes despite the fact that RTC offered evidence that whoever posted the information on the Internet must have obtained the information improperly.

Although the Internet is a new technology, it requires no great leap to conclude that because more than 25 million people could have accessed the newsgroup postings from which [the defendant] alleges he received the [AT documents], these works would lose their status as secrets. While the Internet has not reached the status where a temporary posting on a newsgroup is akin to publication in a major newspaper or on a television network, those with an interest in using the Church's trade secrets to compete with the Church are likely to look to the newsgroup. Thus, posting works to the Internet makes them "generally known" to the relevant people--the potential "competitors" of the Church.

Id. at 1256.

Thus, information that is posted to the Internet, is highly likely to have entered the public domain since it cannot otherwise be retrieved and its general dissemination cannot be controlled.

In the other case involving the Church of Scientology, the United States District Court for the Eastern District of Virginia, clarified the liability for misappropriation between the user who posts the information and another user who simply downloads it: "Although the person who originally posts a trade secret on the Internet may be liable for trade secret misappropriation, the party who merely downloads Internet information cannot be liable for trade secret misappropriation because there is no misconduct involved in interacting with the Internet."¹⁸¹

In light of the foregoing cases, companies should be aware as to how they conduct their businesses in relation to the Internet without jeopardizing the release of their trade secrets. Whether other courts will follow the reasoning in the Scientology cases or whether laws will be adopted to offer increased protection to the trade secret holders, remains to be seen. Meanwhile, companies are well advised to take appropriate security measures to keep their information from falling into the public's hands by its transmission over the Internet or to find alternative ways to protect them.

¹⁸¹ Religious Tech. Ctr. v. Lerma, 908 F. Supp. 1362, 1368 (E.D. Va. 1995).

D. Privacy Rights And The Interest

1. Statutory rights. In Hawaii, it is a criminal offense to install or use eavesdropping equipment or intercepts phone messages, or disclose illegally intercepted messages. Haw. Rev. Stat. §§ 711-1110.9 and 1111. This includes unauthorized interception of an "electronic transmission."

The Electronic Communications Privacy Act provides similar federal protection against interception or disclosure of electronic communications. 18 U.S.C. §§ 2510 et seq. The impact of this right on the Internet is to provide greater legal protection for the privacy of e-mail than many people recognize. You should still exercise caution in sending e-mails, but e-mail generally is protected by law from interception.

In the recent decision in Konop v. Hawaiian Airlines 302 F.3d 868 (9th Cir. 2002), cert. denied, 2003 WL 397601 (February 29, 2003), the Ninth Circuit Court of Appeals addressed the application of the Federal Wiretap Act and the Stored Communications Act to secure websites. Konop maintained a secure website for other employees of Hawaiian Airlines. He controlled access through a user name and password. He accused his employer of hacking into his website.

The court concluded that hacking a secure website generally does not violate the Federal Wiretap Act, 18 U.S.C. §§ 2510-2522 (2000). That act extends to the "interception" of electronic communications, but the court concluded that the word "intercept" is limited to acquisition of the communication that is

contemporaneous with transmission. Stored communications, and thus websites, are therefore not covered by the Wiretap Act. (The court also noted that the recent USA Patriot Act, passed in response to the September 11 tragedy, also narrows the scope of the Wiretap Act to exclude storage from the definition of wire communications.)

The court took a broader view of the Stored Communications Act ("SCA"), 18 U.S.C. §§ 2701-2711 (2000), however. The SCA prohibits access without authorization to a wire or electronic communication while it is in electronic storage as part of an electronic communications service. The parties agreed that a secure website falls within the scope of the SCA. The SCA has an exception that allows a user to authorize such access. This is similar to Hawaii state and federal law that allows one participant in a telephone conversation to secretly tape the conversation (some other states do not allow this type of consent, however). In this case, it was not clear whether Hawaiian had such authorization, and the case was remanded to the trial court for further proceedings.

Violation of the SCA is a federal criminal offense, and – as this case demonstrates – may also provide a basis for a civil suit. The SCA also establishes procedures that law enforcement agencies must follow to gain access to stored communications.

2. Common Law Rights. This right to prevent public disclosure of private facts was discussed by a federal court California in Michaels v. Internet Entertainment Group, Inc., 46 USPQ2d 1892 (C.D.Ca. 1998), a case

involving rock star Bret Michaels and Pamela Anderson Lee (who seems to appear in a number of Internet videos). They had made a private videotape showing themselves having sexual relations. This video was published on the Internet. After a discussion of a variety of intellectual property issues, the court held that posting this video on the Internet violated their right to prevent public disclosure of private facts about their lives. The court noted that the video details of their sexual relationship were "facts which are ordinarily considered private even for celebrities."

E. Patent Rights And The Internet

In the field of on-line information services, the federal government has granted design patents for the protection of unique screen displayed icons.

Under State Street, discussed supra, many computer-implement inventions which have discreet business applications will fall within the bounds of patentable subject matter. This decision has far reaching implications for E-Commerce, and has caused the Patent and Trademark Office to be inundated with E-Business method inventions. Many of such patents have issued to date. For example, patents have issued: reciting a method and system for finding product and service information on the Internet; reciting a method for distributing music on demand via a website; reciting a method of paying customers to view advertisement on the Internet; and priceline.com's now famous patent which recites claims encompassing a "name-your price" buying service.

As expected, lots of litigation has ensued. Not too long ago, for example, the Federal Circuit issued a preliminary injunction in favor of amazon.com against barnesandnoble.com, preventing them from using an “express lane” purchasing system. Amazon.com’s patent no. 5,960,411 involves claims which describe a method and system by which Internet users can execute a purchase order using a single mouse click.

In response to mounting criticism that the Patent and Trademark Office was too lax in its issuance of various Internet-related patents, on March 29, 2000, it issued a two-prong action plan for dealing with business method patent applications. As part of its industry outreach program, the Patent and Trademark office has stated that it will create a formal “customer partnership” with various Internet-related industries. The idea here is for the government and the private sector to formally meet on a periodic basis to air concerns and explore possible solutions to perceived problems. The real idea is to clue the PTO to prior art in Internet matters. The second prong of the PTO plan is to step up the technical training of its examiners and revise its guidelines for examining computer-related inventions.

IX. INTELLECTUAL PROPERTY LAW AND HAWAII'S TECHNOLOGY TAX INCENTIVES

A. The Genesis of Hawaii's High Technology Business Tax Incentives

Beginning in 1999, the Hawaii Legislature began passing measures designed to expand Hawaii's high technology industry, by encouraging growth for those high tech companies already in the Islands, and by enticing high tech companies elsewhere to relocate to the Islands, through the extension of "tax incentives" to certain high tech and entertainment businesses, employees of such businesses, and those who invest in such businesses.

Act 178, 1999Haw. Sess. Laws, spawned the concept and definition of "Qualified High Technology Business" or QHTB, exempted from state tax income received from stock options issued by QHTBs as well as royalties and "other income" derived from patents and copyrights owned by individuals and QHTBs, extended investors in QHTBs a 10% nonrefundable income tax credit up to a maximum of \$500,000, and extended businesses a nonrefundable tax credit, parallel to the federal Section 41 tax credit, for increasing R&D expenditures.

The 1999 tax incentive legislation was sweetened during the 2000 session by Act 297. Act 297, Haw. Sess. Laws, expressly permits QHTBs to sell unused net operating loss carryovers under specifically defined conditions, extended for QHTBs the capital loss carryover period from five to 15 years, expanded the exemption from taxation for royalties and other income derived from patents and

copyrights to trade secrets and “performing arts products,” expanded the tax exemption on income received from stock options to further include options exercised by officers, directors and investors of QHTBs, and increased the increasing R&D expenditures credit from 2.5% to 20% while making the credit “refundable.”

The Legislature continued its trend of expanding the QHTB tax incentives in 2001 with Act 221. Act 221, Haw. Sess. Laws, introduced a 4% technology infrastructure renovation tax credit, clarified that the income tax exclusion for royalties from performing arts products extends to “authors, assignors, licensors and licensees,” expanded the definition of QHTB to include sensor and optic technologies, ocean sciences, astronomy, and non-fossil fuel energy related technology, deleted the negative definition QHTB language and, most notably, expanded both the 20% refundable R&D credit by disposing of the requirement that qualified R&D expenditures must be “increasing” and the QHTB investment tax credit by increasing it from a 10% nonrefundable income tax credit with a \$500,000 per investor cap over one year to a 100% nonrefundable income tax credit with a \$2,000,000 per investor cap over five years. Act 221 expressly states, in Section 13, that “[i]t is the intention of the legislature that the amendments in this Act be liberally construed.”

An incentive by incentive examination of each of the tax incentives Hawaii presently offers high tech and entertainment related businesses, their employees and investors, is set forth below.¹⁸²

B. The Tax Incentives

1. High technology business investment tax credit.¹⁸³

A nonrefundable high technology business investment tax credit of up to \$2,000,000 is available. The credit is graduated over five years (35% to 10%) from the date of the “investment” in a QHTB for investments made through the year 2005 . The credit is capped at varying amounts (\$700,000 in the year the investment is made to \$200,000 in the last year). Some of the credit claimed will be recaptured from the investor if the QHTB ceases to qualify as a QHTB during the five-year period.

¹⁸² Much of the language found in this next section is taken directly from the State Department of Taxation’s model comfort letter ruling which can be found at <http://www.state.hi.us/tax/temp/template.pdf>. Additional helpful materials regarding the State’s high tax incentives can be found at http://www.state.hi.us/tax/hi_tech.html.

¹⁸³ The QHTB investment tax credit has been the most visible and debated of the various high technology tax incentives. This is due, in part, to the ability of partnership entities which invest in QHTBs to “allocate” among partners the investment tax credits generated. Investors not interested in, or unable to utilize the tax advantage of, the Hawaii income tax credit can swap their tax credits for additional equity with investors interested in the tax credit. This strategy leaves some investors with equity proportionally larger than their investment while other investors end up with a tax credit that can be several multiples larger, over five years, than the amount they invested.

Bills intended to amend the law in part to restrict perceived abuses are currently circulating the 2003 Legislature. It is also anticipated that the Department of Taxation may issue guidance to tighten the application of the law, likely through the publication of safe harbors based on “economic substance” of transactions, and limiting the multiple credit to investment ratio to credit to 2:1 or even less. See Hawaii Business Magazine, March 2003, at pages 16-19.

To be considered a QHTB for purposes of this tax credit, the business must employ or own capital or property, or maintain an office, in Hawaii and:

- (1) More than 50% of its total business activities must be qualified research and more than 75% of its qualified research must be conducted in Hawaii; or
- (2) More than 75% of its gross income must be derived from qualified research and the income from this qualified research must be received from:
 - (a) Products sold from, manufactured, or produced in Hawaii; or
 - (b) Services performed in Hawaii.

The term “qualified research” means:

- (1) The same as in §41(d), Internal Revenue Code (IRC);
- (2) The development and design of certain computer software;
- (3) Biotechnology;
- (4) Performing arts products;
- (5) Sensor and optic technologies;
- (6) Ocean sciences;
- (7) Astronomy; or
- (8) Nonfossil fuel energy-related technology.

Item (1) of the definition of qualified research above is drawn from IRC §41(d), where it is defined as research undertaken to discover information technological in nature, which constitutes a process of experimentation relating to a new or improved function, performance, reliability, or quality.

“Qualified research” activities must satisfy the following tests under regulation §1.41-4:

- (a) The expenditures must qualify as research and experimental expenditures under IRC §174;
- (b) The expenditures must relate to research undertaken to discover information that is both technological in nature and the application of which is intended to be useful in developing a new or improved business component of the taxpayer; and
- (c) Substantially all of the activities of the research must constitute elements of a process of experimentation that relates to a new or improved function, performance, reliability or quality.

§41(d), IRC, further clarifies that qualified research does not include any research:

- (a) After commercial production;
- (b) Related to the adaptation of existing business components;
- (c) Related to the reproduction of existing business components;
- (d) Surveys, studies, market research, etc.;
- (e) Conducted outside of the United States;
- (f) In the social sciences, arts, or humanities; or
- (g) To the extent funded by any grant, contract, or otherwise by another person (or governmental entity).

Item (2) of the definition of QHTB concerns the development and design of certain computer software. To meet this requirement, the business must

develop and design computer software using fourth generation or higher software development tools or native programming languages to design and construct unique and specific code to create applications and design databases for sale or license.

Item (3) of the definition of "qualified research" includes biotechnology. Biotechnology is defined in §235-1, HRS, as the "fundamental knowledge regarding the function of biological systems from the macro level to the molecular and subatomic levels that has application to development including the development of novel products, services, technologies, and subtechnologies from insights gained from research advances that add to that body of fundamental knowledge."

Item (4) of the definition of "qualified research" includes performing arts products. Performing arts products is defined as:

- (1) Audiofiles, video files, audiovideo files, computer animation, and other entertainment products perceived by or through the operation of a computer; and
- (2) Commercial television and film products for sale or license, and reuse or residual fee payments from these products.

Items (5), sensor and optic technologies, (6) ocean sciences, (7) astronomy, and (8) nonfossil fuel energy-related technology, are not further defined by the statute. As a result, it has been a practice of the Department of Taxation when addressing companies claiming qualification in these industries to

first attempt to qualify the company under the Item (1), same as Section 41, IRC definition.

2. Income tax exclusion for royalties and other income from qualified high technology business.

Pursuant to §235-7.3, HRS, an income tax exclusion is available for income received by an individual or a QHTB as royalties and other income derived from any patents, copyrights, and trade secrets developed and arising out of a QHTB. The exclusion may be claimed by the individual or QHTB that owns the patents, copyrights, or trade secrets.

3. Income tax exclusion for stock options from qualified high technology business.

§235-9.5, HRS, provides an exclusion for “all income earned and proceeds derived from stock options or stock,” including stock issued through the exercise of stock options or warrants, from a QHTB or from a holding company of a QHTB by an employee, officer, or director of the QHTB, or investor who qualifies for the high technology business investment tax credit in §235-110.9, HRS. This exclusion is applicable to dividends from stock or stock received through the exercise of stock options or warrants, the receipt or the exercise of stock options or warrants, and income from the sale of stock, including stock issued through the exercise of stock options or warrants.

4. Tax credit for research activities.

The tax credit for research activities provided under §235-110.91, HRS, is similar to the federal credit for increasing research activities under §41, IRC. The

Hawaii credit is available for tax years 2000-2005 for research done in the State. Unlike the federal credit, the Hawaii credit may be claimed without increasing research expenses and the 20% Hawaii credit is refundable (the federal credit is nonrefundable).

5. Sale of net operating loss.

§235-111.5, HRS, allows a QHTB to sell its unused net operating loss carryovers (NOLs) provided that the sale is for an amount equal to at least 75% of the amount of the surrendered tax benefit computed at the corporate rate under §235-71, HRS and the sale does not exceed \$500,000 per year. This applies to NOLs occurring in the two taxable years preceding the year in which the sale of NOLs occurs and applies to sales of NOLs after December 31, 2000, and before January 1, 2004.

6. Miscellaneous Provisions.

§235-2.45 (f), HRS, allows a corporate QHTB, as defined in §235-7.3, HRS, to carry forward capital losses for 15 years.

A nonrefundable income tax credit for 4% of the "renovation costs" for each commercial building located in Hawaii is available for tax years 2001 through 2005. "Renovation costs" means costs incurred after December 31, 2000, to plan, design, install, construct, and purchase technology-enabled infrastructure equipment to provide a commercial building with technology-enabled infrastructure.

Expand related entities exemption. The related entities exemption which exempts from the general excise tax (GET) amounts received, charged, or attributable for "services" or interest between one "related entity" and another "related entity" is expanded. The use of computer software and hardware, information technology services, and database management between related entities is exempt from the GET. These changes are applicable to gross income or gross proceeds received beginning July 1, 2001.

C. Intellectual Property and Hawaii's Tax Incentives

Those considering whether their business may qualify as a QHTB through the Item (1) definition of "qualified research," to wit, "same as in §41(d), Internal Revenue Code (IRC)," should be aware of Final Treas. Reg. § 1.41-4(a)(3)(iv), issued by the Internal Revenue Service in December 2000 and effective January 3, 2001, clarifying that the issuance of a patent by the U.S. Patent and Trademark Office is conclusive evidence that a taxpayer has obtained knowledge that exceeds, expands or refines the common knowledge of skilled professionals.

(iv) PATENT SAFE HARBOR. For purposes of section 41(d) and paragraph (a)(3)(i) of this section, the issuance of a patent by the Patent and Trademark Office under the provisions of section 151 of title 35, United States Code (other than a patent for design issued under the provisions of section 171 of title 35, United States Code) is conclusive evidence that a taxpayer has obtained knowledge that exceeds, expands, or refines the common knowledge of skilled professionals. However, the issuance of such a patent is not a precondition for credit availability.

Many high technology businesses in Hawaii considering QHTB qualification conduct research funded in part by federal grants. As explained

above, “funded research” is a specific bar to establishing “qualified research” under Item (1) of the QHTB definition. However case law and IRS guidance interpreting Section 41 of the IRC has clarified that grant contracts that (1) include milestones and other contingencies which, if the grantee fails to meet, will cause the grantee to lose its entitlement to future payments and/or be liable to reimburse the government for past payments, and (2) allow the grantee to retain substantial rights in the products of its research, and more specifically, substantial ownership in intellectual property developed by the grantee in the course of research being funded, will not be considered “funded” within the meaning of Section 41(d) of the IRC. See, e.g., Lockheed Martin Corporation vs. United States, 210 F.3d 1366, 85 A.F.T.R.2d 2000-1495 (Fed. Cir. 2000); Fairchild Industries, Inc. vs. United States, 71 F.3d 868, 76 A.F.T.R. 2d 95-7707 (Fed. Cir. 1996); Treasury Reg. § 1.41-4A(d)(1) and (2). Companies receiving government grants that include such terms and conditions would therefore remain eligible for QHTB status under the Item (1) definition “same as Section 41, IRC.”