

# BASICS OF INTELLECTUAL PROPERTY

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## **I. INTRODUCTION**

The term “intellectual property” refers to proprietary rights in inventions and other creative efforts. Examples of intellectual property include patents, trade secrets, trademarks, copyrights, rights of publicity held by public figures, so-called “moral rights” in artistic works which prevent changes in the work without consent of its creator, and merchandising rights to spin-off consumer products deriving from a book, movie, or event. In this summary treatment, we will focus on patents, trade secrets, trademarks,

and copyrights, which are the most important and present the most frequently recurring issues involving commercial intellectual property rights.

## **II. PATENTS**

A U.S. patent is a grant (under Article 1, Section 8 of the United States Constitution) from the U.S. Government to the inventor, of the right to exclude others from making, using and/or selling the invention which is the subject matter of the patent in the United States. Because of their exclusionary character, patent rights are sometimes referred to as “negative monopoly” rights.

Set out below is a general discussion of considerations relating to patent protection. There are two main types of United States patents, utility patents and design patents. Both types are discussed in turn below.

## **III. UTILITY PATENT PROTECTION**

A utility patent relates to the functional character of an invention. A utility patent is the most common type of U.S. patent.

In evaluating the desirability of utility patent protection, the initial step is the verification that the invention resides in one of the statutory classes of patentable subject matter identified in 35 U.S.C. § 101, viz., processes, machines, compositions of matter, and articles of manufacture (this category technically refers to unitary or discrete articles having no or relatively few moving parts), and improvements thereof.

Thus, inventions which are modifications or improvements of existing products or technology are fully appropriate subject matter for patent protection, provided that they otherwise meet the statutory patentability criteria.

The patentability criteria are set out in Title 35 of the United States Code, in Sections 101, 102, and 103. These criteria include requirements of novelty, utility, and unobviousness. Each of these criteria is briefly discussed below.

In the first instance, an inventor contacting legal counsel frequently will not have made a definitive assessment of the value of his/her invention. The inventor should be informed that the patenting effort is a protracted and uncertain procedure involving the filing of a patent application in the U.S. Patent and Trademark Office, either by the inventor himself/herself (*pro se*), or by the inventor’s licensed patent representative. While there is no prohibition against *pro se* filing and prosecution of an application for patent, the drafting requirements and the criticality of language and terminology involved is such that the inventor generally is well-advised to avoid “homemade” patent applications, and to retain a competent registered Patent Attorney or Patent Agent.

A registered Patent Attorney is an individual who has been licensed by the U.S. Patent and Trademark Office to practice in matters before such office, and who is a member in

proper standing of a state bar. In order to become credentialed before the Patent and Trademark Office, a technical or science background is required. A registered Patent Agent is an individual who has such technical or science background and who has passed the licensing (registration) examination of the Patent and Trademark Office but who is not an attorney. The inventor/client should be informed that a registered Patent Attorney or registered Patent Agent can assess the invention, can prepare the inventor's patent application, and can file and prosecute same in the Patent and Trademark Office, but only a licensed attorney can handle matters entailing the practice of law outside the scope of such Patent and Trademark Office representation (for example, preparing license contracts, bringing suit for infringement of patent rights, etc.).

The next action to be undertaken in determining the propriety of patent action, once it is confirmed that the invention resides in one of the above-discussed statutory classes of potentially patentable subject matter, is making a prior art determination, in the context of the statutory patentability requirements of utility (35 U.S.C. § 101), novelty (35 U.S.C. § 102) and unobviousness (35 U.S.C. § 103). The prior art includes knowledge, information and activity of others which predates the invention in questions, as well as sales, offers for sale, public use, or printed publication of an invention in the United States, more than one year prior to the filing of the inventor's application for patent. Thus, a threshold question to the inventor/client should be whether any of these sales/use/publication activities has taken place, since any such activity will start a "one-year clock" running. If more than one year has elapsed since the inception of one or more of these activities within the scope of the statute, the patent rights in that invention have irretrievably been lost.

The United States Supreme Court in *Pfaff v. Wells Electronics, Inc.* ( 525 U.S. 55 (1998)) establishes the principle that the 1 year period of the on-sale bar of the Patent Law (35 USC §102) begins to run when a "ready to patent" invention is the subject of a commercial offer for sale of the invention. Concerning the ready for patenting condition, the Supreme Court declared:

"That condition may be satisfied *in at least two* ways: by proof of reduction to practice before the critical date; or by proof that prior to the critical date the inventor had prepared drawings *or other descriptions of the invention* that were sufficiently specific to enable a person skilled in the art to practice the invention." (525 U.S. at 67, *emphasis added*)

The "ready to patent" standard thus has been left open-ended in character, as regards the events that may define it. Special attention therefore is warranted to determine if an "on sale" statutory bar has occurred or is imminent if an invention has been commercially exposed to the market.

The patent laws in most foreign countries are even more restrictive, providing no "one-year clock" grace period. In such countries, absolute novelty is required for patent protection. Thus, if there has been any "divulcation" to the public of the invention prior to filing for patent protection, then it is not possible to obtain valid patent protection in

such countries. If the prospective client seeks counsel in connection with an impending disclosure, use, and/or sale of his/her invention, the client should be made aware that these activities will result in immediate loss of the foreign patent rights in such “absolute novelty” jurisdictions, if no patent application has been filed beforehand.

In this respect, the U.S. is a member of various international patent treaties, principally the International Convention, and the Patent Cooperation Treaty. Under such treaties, once a U.S. patent application is filed, corresponding foreign applications may be initiated within one year after the U.S. filing date, and will “relate back” to the filing date (i.e., have the effective priority filing date) of the U.S. patent application. What this means is that any subsequent product, development or patent activities by others, during the one year period after the U.S. application is filed, will not adversely affect the foreign counterparts filed within such one year period and claiming the priority rights of the U.S. application. This is a significant benefit, where the same or similar invention may be made by others in the interim between the U.S. patent application filing date and the date of foreign patent applications filed within one year thereafter.

It should be noted that some countries are not members of any international patent treaties, so that separate individual patent applications would have to be filed in such countries at the outset to protect the invention. In this respect, it is recommended that if the inventor decides to pursue patent protection on the invention, the inventor identify foreign countries which may be important to him/her from a commercial standpoint, as a basis for deciding if foreign patent applications should be filed at the time the U.S. application is filed, in non-treaty countries.

For all these reasons, it is highly prudent to counsel the inventor/client to seek the assistance of patent counsel at the earliest possible date.

In determining the state of the art against which the invention will be judged by the U.S. Patent and Trademark Office, searches of issued U.S. and foreign patents and non-patent prior art may be conducted through an independent searcher to locate any references that may be pertinent to the invention. Copies of the pertinent “prior art” which is located in the search are provided by the researcher, and may be furnished to the patent attorney or patent agent, as a basis for preparing a detailed written assessment of the strength and scope of patent protection which may be obtainable based on the prior art located.

Of course, if the inventor is knowledgeable of the state of the art in the field of the invention, and does not believe any competitive product or technology exists which is similar in character to this invention, or if the inventor desires to file the application in the U.S. Patent and Trademark Office as promptly as possible without assessing the state of the art, then the inventor may wish to proceed directly to preparing and filing a U.S. patent application. The danger in this approach is that an issued patent or other reference may be in existence which prevents patent protection from being obtainable. For this reason, it is generally recommended that an initial patent search be conducted, since the cost of such a search is generally significantly less than the cost of preparing and filing a patent application.

The cost of a patent search, analysis, and opinion is typically in the range of \$1000-\$2000, depending on complexity.

Alternatively, the inventor may wish to conduct his/her own patent search. Such a search may be conducted on-line at patent search sites such as the U.S. Patent and Trademark Office Web site ([www.uspto.gov/patft/index.html](http://www.uspto.gov/patft/index.html)) . A patent search also can be conducted at the Patent Depository in the D. H. Hill Library at N.C. State University, Raleigh, where assistance to the public is available for patent searches, free of charge (this may be a very time-consuming process, however). Since the patentability of the invention, and validity of any resulting patent obtained on the invention will be measured not only against the relevant patents but also against the general state of the art in the field of the invention, it is also advisable to do a general on-line search of non-patent sources of prior art. This may be done using a general Internet search engine, e.g., to locate information on relevant products, methods, etc. that may have bearing on patentability.

Assuming that a search is done, and it is concluded that the prospects for patentability justify the filing of a patent application, or it is decided to proceed directly to patent application filing without a search, the cost, including preparation of the patent application and related filing documents, preparation of formal drawings, and the Patent and Trademark Office filing fee, may be on the order of about \$5000-\$6000 for a simple application, \$6000-\$7500 for a patent application of moderate complexity, and \$7500-\$10,000 for an application concerning complex subject matter.

Once the patent application is filed in the U.S. Patent and Trademark Office, it is sent to a Patent and Trademark Office Examiner who specializes in the subject matter of the application. The Examiner then performs a patent search (the reason a pre-filing patent search is recommended is to avoid any surprises at this stage) and based on the results of his or her search issues an Office Action. In the Office Action, the Examiner may take exception to the patentability of the invention claims, based on prior art, as well as objecting to other aspects of the specification and drawings of the application. In response to the Office Action, amendments may be filed and/or arguments may be presented in favor of patentability. This is followed by further action from the Patent and Trademark Office, until a final disposition of the application is made. The costs involved in this phase of the proceedings, termed "patent prosecution," depend on the position taken by the Patent Office. The Patent Office may, for example, determine the application to be allowable without any adverse action, in which event, no significant additional service charges would be incurred. On the other hand, the Patent Office may take an adverse position to patentability, which requires a significant argumentation and/or amendment of claims. Generally these prosecution costs do not exceed about \$8000.

If the prosecution of the patent application is successfully concluded, a Notice of Allowance is issued by the Patent and Trademark Office and an issue fee is payable to the PTO to issue the patent. The current amount of the issue fee is \$605.00 for individuals and small businesses, and \$1,210.00 for large businesses (those having more than 500

employees). Subsequently, maintenance fees are payable to keep the patent in force for its full term of 20 years from its filing date. These maintenance fees are due at 3-½, 7-½, and 11-½ years after issuance of the patent. The amounts of these fees are currently \$470.00, \$950.00 and \$1,455.00 for individuals and small businesses, and \$940.00, \$1,900.00 and \$2,910.00 for large businesses, respectively. If the maintenance fee is not timely paid (it can be paid up to six months late with payment of a surcharge), the patent expires as a result of such non-payment.

As soon as a patent application is filed, the invention covered by the application has “patent pending” status, and the invention can be correspondingly marked and advertised. Although there are no enforceable rights against infringement unless and until the patent actually issues, the marking and promotion of products as “patent pending” does put one’s competitors on notice that a patent application has been filed and that a patent may issue and be asserted against them. In this manner, the “patent pending” notice serves as a barrier to entry to those who otherwise might be prone to work to “knock off” the product. Of course, there are individuals and companies who may decide that the capital investment is such that the invention can be “knocked off” successfully during the patent pending period, and the infringing operation will be taken out of business as soon as the patent actually issues. Alternatively, competitors may take the position that any patent issued is invalid, and continue infringement, thereby requiring legal proceedings or the threat of same to effect a resolution.

AGAIN, IT IS TO BE EMPHASIZED THAT THE U.S. PATENT LAW PROVIDES A ONE YEAR PERIOD FOR A PATENT APPLICATION TO BE FILED, AFTER THE APPLICATION IS FIRST SOLD, OFFERED FOR SALE, PUBLICLY USED, OR DISCLOSED IN A “PRINTED PUBLICATION”. IF MORE THAN A YEAR PASSES FROM THE FIRST OCCURRENCE OF SUCH EVENTS, THEN U.S. PATENT RIGHTS ARE IRRETRIEVABLY LOST.

Insofar as foreign patent rights may be of interest, no disclosure of an invention should be made prior to filing of a patent application, except under secrecy agreement.

As an adjunct to utility patent protection, the patent statute in 35 U.S.C. § 111(b) provides for provisional patent applications, which have a life of 12 months and are not subject to revival after such 12-month period. The filing date in the U.S. Patent and Trademark Office of the provisional patent application may be claimed as the priority date of a subsequently filed U.S. utility patent application, provided that the utility patent application is filed during the 12 months pendency of the provisional patent application. A provisional application thus affords a method of securing an early priority date to an invention which may be the subject of further development or evolution during the 12-month period, so that the description of the invention in the provisional application can be “bulked up” or otherwise more fully delineated, relative to the description initially filed in the provisional patent application. The filing fee for a provisional application is \$75.00 for individuals and small businesses, and \$150.00 for large businesses. The cost of preparation and filing of a provisional application, inclusive of the aforementioned

filing fee, will depend on the complexity of the subject matter and extent of the description of the invention, but typically is in the range of \$2500-\$3500.

The foregoing pertains to utility patents. Set out below is a cursory discussion of design patents.

#### **IV. DESIGN PATENT PROTECTION**

Under the U.S. Patent Law, design patents can be issued on new and ornamental designs. The subject matter of the design patent is the visual appearance, shape, configuration, or surface decoration of an article. The protection afforded by the patent relates to the visual aspects, and thus is defined by the drawings of the invention, as opposed to utility patents, in which the scope of protection is determined by the written patent claims at the end of the patent document.

The cost of preparing and filing a design patent application, inclusive of Patent Office filing fees, charges for preparation of the patent specification and filing documents, and drafting of the formal drawings, generally is on the order of \$1000-\$2000.

The prosecution of the design patent application is generally conducted along the lines of utility patent applications. When a design patent issues the issue fee is \$430.00 for a large business, and \$215.00 for individuals and small businesses. There are no maintenance fees payable to keep design patents in force, but their term is only 14 years, as opposed to 20 years from the filing date for utility patents.

#### **V. WRITTEN RECORDS OF INVENTION**

For the purpose of establishing claim to the invention, in the event that another party files a patent application on the same invention in the U.S. Patent and Trademark Office, it is critical that the inventor document the conception of the invention, as well as its "reduction to practice" (which is the physical making of the invention and demonstrating its utility for its intended purposes).

The conception should be documented in writing in such manner that someone who is of ordinary skill in the field of the invention can read the disclosure and replicate the invention.

The documentation should be signed by the inventor, who is identified as such, should be dated, and should also be independently witnessed, by someone who reads and understands the disclosure, and likewise signs and dates the document. The requirement of such document being independently witnessed is critically important from an evidentiary standpoint, since it provides "independent corroboration" (by the witness) of the conception of the invention. In the event of a priority contest in the U.S. Patent and Trademark Office, this written documentation may be used to determine who first conceived the invention. An illustrative invention disclosure document is set out below, and is typical of commercial documents used for evidencing the conception of an

invention. Such invention disclosure document is also frequently used as a source document by the patent attorney or patent agent, in drafting the patent application.

### **Invention Record Document**

This form is provided to help you organize your thoughts about your invention. Be careful to describe what, specifically, makes your invention different from what has gone before. Avoid general statements that your invention is “better” - instead, discuss why it is better, and what makes it better.

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Name of Inventor(s):

Address:

Telephone:

Fax:

E-mail:

Name of Invention:

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1. Brief Description: Describe the invention in general terms: What does it do? How does it do it?
2. Details of the Invention:
  - What parts (steps, if a method) make up the invention, in its best (preferred) form?
  - What does each contribute to the invention?
  - Which parts are new to this invention (in form or usage), and which are old (conventional, used in the expected way)?
  - In what way do the parts interact to make the invention work?
  - For each part, indicate if the part (or its form or interconnection) is **ESSENTIAL** to the invention - that is, for each part, ask “if this part were left out, or changed, would the remaining device still be my invention?” Or, “if this part were changed or left out, would the invention still work?”

- If possible, use labeled sketches to detail your invention. Be sure all essential parts are shown on the sketch, and try not to include extraneous details. Measurements are not required, unless they are essential to the operation of the invention.
3. Alternatives: You have described the best way to build (perform) your invention. Now consider the alternatives.
    - In what ways could the parts (steps) be changed or equivalent parts substituted without changing the basic invention?
    - Is there a generic description for any of the parts you listed (i.e. “fastener” instead of “machine screw”, or “plastic” instead of “polypropylene”)?
    - Could the functions of any of the parts be changed, combined, eliminated?
    - What could be left out?
  4. Alternate Use: Can your invention be used for anything other than its preferred use?
  5. Limitations: When will the invention not work?
    - Are there any critical ranges of size, weight, pressure, etc. for any of the parts of your invention? (e.g., “the cap must be made of steel with a Rockwell hardness of 32-56”)
    - Must some parts be made of specific substances?

In order to be patentable, an invention must be NOVEL, USEFUL and NOT OBVIOUS to one skilled in the art, based upon everything that was available at the time of the invention.

6. State of the Art: Consider what was already in existence (whether patented or not) before the invention.
  - How is the function of the invention being done today?
  - What is the closest device (method) you are aware of to your invention?
  - Is there something which performs the same function in a different way?
  - Is there any combination of existing devices (methods) which would be similar to your invention?

- How does your invention perform its function different from, or better than, these prior devices (methods)?
  - How are they similar?
7. Resources for search:
- If you hadn't invented the invention, where would you go to find one?
  - What catalogs, publications, etc. would you look in?
  - To what extent have you looked?
  - Who would be likely to purchase or use the invention?
  - Do you know of any publications which might describe the invention or its competitors?

You may not get a patent on an invention which was already patented, or described in a printed publication, or in public use or on sale either: (a) by others, before you invented it, or (b) by anyone, more than one year before you apply for a patent.

8. Date of Invention: "Invention" means a combination of conception (coming up with the idea of the invention) and reduction to practice (building it, or applying for a patent).
- Conception: When did you first begin to work on the invention?
  - Reduction to Practice: Has the invention been built? If so, when?
9. Publications: Has the invention ever been described in any printed form, by anyone? If so, where and when?
10. Public Use: Has the invention ever been shown or used in public? If so, where and when?
11. Sale: Has the invention ever been sold or offered for sale? If so, where and when?
12. Other Inventors: Is there anyone else who contributed to the conception or reduction to practice of the invention, in more than a purely mechanical way?
13. Rights in Others: Are you under any obligation to assign any rights in the invention to others?

- Was the invention developed in the course of your employment, or using any facilities belonging to your employer? If so, the employer may have rights to the invention.
- Do you have an agreement with your employer that you assign any inventions you may make to the employer?
- Was the invention developed in the course of a consulting agreement with someone else? If so, did you agree that any inventions belong to them?
- Was there any funding of the development of the invention by any party (government agency, school, etc.) who might claim rights in the invention?
- Was any equipment or facility used in the development of the invention which was funded by or belongs to any government agency?

14. Any additional notes or comments?

Be sure to sign and date the form, and have it witnessed by someone who is not an inventor.

Signed: \_\_\_\_\_

Name of First Inventor: \_\_\_\_\_

Dated: \_\_\_\_\_

Signed: \_\_\_\_\_

Name of Second Inventor: \_\_\_\_\_

Dated: \_\_\_\_\_

Signed: \_\_\_\_\_

Name of Third Inventor: \_\_\_\_\_

Dated: \_\_\_\_\_

Read, witnessed and understood: \_\_\_\_\_

Name of Witness: \_\_\_\_\_

Dated: \_\_\_\_\_

## **VI. COMMERCIAL EXPLOITATION OF INVENTION RIGHTS**

It should be noted that the patent right, being the right to exclude others from manufacture, use and sale of a patented invention, does not confer on the patent owner an absolute right to practice the invention.

Thus, a patent may disclose and claim an invention, but the practice of the claimed invention may be dominated by other (“blocking”) patents. An example is a patent to a first party covering a fuel injection system for an internal combustion engine. Later, an improvement patent issues to a second party, covering such fuel injection system in combination with a specific combustion chamber design which utilizes the fuel injection system in a highly effective manner. In this instance, the second party would be blocked from commercializing his/her invention, by the patent of the first party, and would require authorization from the first party to practice the second party’s own patented improvement invention.

Correspondingly, the first party, although having a broader patent position than the second party, is excluded from practicing the second party’s patented improvement invention. In these instances, the first and second parties may agree to cross-license each other under their respective patents, so that each can practice the subject matter of the other’s patent. Alternatively, one of the parties may unilaterally license, or sell, his/her patent rights to the other party. Such licensed or purchaser party then would be free to practice the basic invention and improvement invention, if the practice of such inventions does not conflict with any other (third party, fourth party, etc.) patent rights.

It therefore may be necessary to conduct an infringement clearance study to ensure that the practice of one’s invention is free and clear of any infringement of adversely held potentially enforceable patent rights. If the infringement clearance study locates patents which may pose infringement problems, the inventor’s patent attorney can assist in (i) determining from the Patent and Trademark Office records and thorough investigation, whether such patents are valid, (ii) “designing around” the claims of such patents to avoid infringement, or (iii) acquiring rights, by license or purchase of such blocking patents. It is essential that any potentially blocking patents be thoroughly reviewed by competent patent counsel, in order to avoid any liability exposure for patent infringement damages and/or other infringement remedies if the blocking patent is asserted against the invention in question. See the discussion in the subsequent section (“Enforcement of Patent Rights”).

In licensing or purchasing patent rights, the consideration paid for the license or purchase of patent rights is generally determined on the basis of various factors, including the market in which the patented invention is exploited, the extent of the improvement or benefit afforded by the patented invention over existing products or technology in the field of the invention, and the profit margins in the industry to which the patented invention pertains.

In license arrangements, the payment for the authorization to operate under the licensor's patent may take various forms. For example, the license may be granted for a single lump-sum payment, upon payment of which a fully paid license is obtained under the patent. Alternatively, the license may be granted on a so-called running royalty basis, under which the licensee's payments to the licensor may be made over an extended term, on any appropriate royalty base, such as the net sales value of the product sold under the license (e.g., 5% of the net sales value of the product), or some other unit basis (\$2.00 per pound of product made and sold under the license; \$3.40 per hour for operation of a patented process; etc.). As a still further alternative, the license arrangement may involve both a front-end license fee, and a running royalty during the term of the patent protection.

License rights may be exclusive or non-exclusive in character, and may be limited to a specific product or industry by a "field of use" restriction in the license agreement, or the license right may be restricted or limited in other respects, e.g., geographically, as a result of negotiations between the licensor and licensee.

The specific terms of licenses or sales are matters of negotiation and bargaining power, and should in all instances be incorporated in written contract documents.

Until the advice of competent intellectual property counsel is secured, it is essential that an invention be kept fully confidential and not disclosed to others. If the invention nonetheless is required to be disclosed to others before the inventor has had opportunity to consult with intellectual property counsel, the disclosure should be made under a suitable secrecy agreement, providing that the disclosee will keep the disclosed information confidential (indefinitely, or for a specified term of years) and not use it except for the purpose of evaluating the disclosee's business interest therein.

Set out below in a Confidential Disclosure and Restricted Use Agreement of a type which could be usefully employed in such a situation.

**Confidential Disclosure and Restricted Use Agreement**

Date: \_\_\_\_\_

ABC and Company

1 ABC Drive

Milland, NH 07590

This refers to recent conversations between \_\_\_\_\_ (referred to hereinafter as "DISCLOSER"), and ABC AND COMPANY (referred to hereinafter as "Company") concerning proposed discussions between DISCLOSER and Company relating to their respective interests and positions involving DISCLOSER's invention, on the basis of which proposed discussions



or license to be implied from the disclosure of its Confidential Information by one party to the other hereunder.

If this Agreement is satisfactory, please sign and date both enclosed originals of this Agreement letter, and return one to \_\_\_\_\_, retaining the other fully executed original for your records.

Sincerely,

XXXXXXXXXXXXXXXXXXXXXXXXXXXX

\_\_\_\_\_

(Signature)

AGREED AND ACCEPTED THIS \_\_\_\_\_

DAY OF \_\_\_\_\_, 200 \_\_\_\_.

ABC AND COMPANY

By: \_\_\_\_\_

Name:

Title:

If disclosure already has been made by the inventor or creator, prior to the time of meeting with legal counsel, an effort should be made to determine whether the facts and circumstances of such disclosures evidence an expectation and implied understanding of confidentiality. If such in fact is the case, the disclosure transaction should be memorialized in a letter, documenting the fact that the disclosed information is furnished under an understanding of confidentiality and use only for the purpose of determining the disclosee's business interest therein. This will create a "paper trail" documentation of the disclosure transaction, in the event of any subsequent use or misappropriation of the invention by the disclosee. Again, early discussion of intellectual property issues with competent legal counsel is vitally important.

## VII. ENFORCEMENT OF PATENT RIGHTS

Once a patent application is filed in the U.S. Patent and Trademark Office, the invention covered by the claims of the application is "patent pending" in character. There are, however, no enforceable patent rights under a pending application, merely a contingent and inchoate right, which becomes established only if and when a patent issues on the

application. Nonetheless, the contingent, inchoate patent rights under a pending patent application constitute a property interest which is salable, licensable, or otherwise transferable, in the same general manner as the property interest in an issued patent. Once the patent issues and the exclusionary patent rights are established, infringement of the patent rights by others can be redressed by filing of a patent infringement lawsuit and appropriate claims in a United States District Court, since the federal District Courts have exclusive original jurisdiction of such claims. By contrast, contractual and ownership interests in patent rights are matters of state court jurisdiction, unless joined in federal civil litigation as pendant state claims, or otherwise independently justifiable in federal courts.

Infringement claims are subject to a six year statute of limitations (35 U.S.C. § 286) in respect of damages recovery for past infringement, however it should be recognized that infringement claims nonetheless are subject to equitable defenses such as laches and estoppel which may limit the scope of relief ultimately granted by a court. Injunctive relief also may be secured with actions for temporary restraining orders and preliminary injunctions. Injunctions typically are available on the same basis as in other legal actions, including showing of threatened harm which will not be adequately redressable in the absence of injunctive restraint on the infringing party, and, in respect of obtaining a prior injunctive restraint, upon a satisfactory showing of likelihood of success on the merits at trial.

In damages actions for patent infringement, the damage award incident to a finding of infringement may be based on lost profits of the patent owner, if provable with reasonable certitude, or on a reasonable royalty under the circumstances. The patent statute in the case of willful infringement (e.g., infringement commenced or continued after knowledge of the patent and its conflict with the infringer's activities) may afford up to treble damage awards (based on such lost profits or reasonable royalty determination). The court has discretion to award attorney's fees in special cases, such as those where willful infringement is found. Injunctive relief may accompany such monetary judgments, barring the infringer from future infringement of the patent-in-suit.

When a prospective client seeks legal counsel subsequent to receiving notice of a patent infringement claim, such party should be advised to immediately retain a competent patent attorney, since delay ultimately may result in findings of willful infringement and imposition of treble damage liability, as well as liability for attorney's fees, if patent infringement litigation is commenced against such party.

In determining the existence of infringement and enforceable scope of claims of a utility patent, two forms of infringement are considered: (i) literal infringement, and (ii) infringement by equivalents.

Literal infringement involves an element-by-element comparison of all elements of the patent claim with the corresponding elements of the allegedly infringing product. If there is literal correspondence in the "accused" product to each of the elements recited in the patent claim, then a *prima facie* case of literal infringement is made out.

In an effort to prevent the misappropriation of the “essence” of a claimed invention of a patent, the “doctrine of equivalents” has been declared and evolved in the case law. Although this infringement doctrine has various formulations, it may be generally identified as the infringement that exists when there is not literal infringement of the specific element(s) of a claim in a patent, but where each and every non-identical element of the accused product or process is equivalent to a corresponding claimed element of the patented invention. An inquiry as to whether the accused product or process does the same thing in substantially the same way to achieve substantially the same result, or whether the accused product or process contains insubstantial differences from the patented one, is determined by the role played by each element in the context of the specific claim. The formulation of the tripartite “function-way-result” infringement test, or the “insubstantial differences” test, serves to expand the enforceable scope of a patent claim beyond its literal language, to encompass products or processes including elements which appropriate the essence of the recited elements of a patent claim.

The U.S. Supreme Court considered the doctrine of equivalents most recently in *Warner-Jenkinson Co. v. Hilton Davis Chemical Co.*, 117 U.S. 1040 (1997), specifically holding that the proper time-frame for application of the doctrine is at the time of infringement, thereby permitting the doctrine to be applied to infringers who avoid literal infringement of the patent claims by using technology developed after the patent issued. The Court also mooted the debate about how best to characterize the essential test under the doctrine of equivalents -- whether it is the tripartite test of function-way-result, or the insubstantial differences analysis – by stating that “the particular linguistic framework used is less important than whether the test is probative of the essential inquiry: Does the accused product or process contain elements identical or equivalent to each claimed element of the patented invention?”

The U.S. Supreme Court in *Warner-Jenkinson* also upheld the related doctrine of prosecution history estoppel, holding that surrendering matter during prosecution of a patent through the U.S. Patent and Trademark Office creates a rebuttable presumption that the surrender was for the purpose of establishing patentability of the claimed invention. In the absence of rebuttal, the presumption operates to prevent the matter surrendered during prosecution from being recaptured and asserted under the doctrine of equivalents in an infringement trial.

Correspondingly, a “reverse doctrine of equivalents” exists, according to which an element in an accused product which performs a similar function in a fundamentally different and non-analogous way to achieve a similar result to that of the recited element of a claim to a patented product may be found to be sufficiently far removed from the scope of the claimed invention so that no infringement is held to exist.

The question of strength and scope of patent claims is a matter which requires thorough study and determination by a patent attorney, in light of the prior art, and the proceedings in the Patent and Trademark Office, since arguments made and actions taken to achieve issuance of a patent on an application may be binding on the interpretation of the claims, under the doctrine of file wrapper estoppel (the file wrapper is the physical file of

documents pertaining to an application and corresponding patent, in the records of the Patent and Trademark Office). Further, it is noted that the range of equivalents accorded to specific claim features under the doctrine of equivalents is a function of proximity of the prior art. In instances where the patent is of a pioneering character, entailing no close prior art, the claims are correspondingly more broadly construed for equivalents purposes, in relation to a patent issuing in a very “crowded” field of technology, in which the claims are more narrowly construed for purposes of enforceability and patent validity.

It should also be noted that U.S. patents covering processes for making a product have additional associated rights under the 1988 Process Patent Amendments, including 35 U.S.C. § 271(g) which imposes infringement liability on one who imports into the U.S. or sells or uses in the U.S. the product of such patented process. This statutory provision operates to provide infringement rights to the process patent owner when a patented process is practiced outside the U.S. and the product of such process is imported to the U.S.

## **VIII. TRADE SECRETS AND EMPLOYMENT RELATIONSHIPS**

The attorney may encounter instances in which an individual upon termination of employment seeks advice on issues relating to patent and other proprietary rights, in connection with embarking on new employment or entrepreneurial activity. In such instances, the individual should be requested to furnish his/her legal counsel with copies of any employment agreements or contracts that may be binding on the individual, and which may impact the individual in his/her further employment or entrepreneurial activity.

In this respect, all trade secrets of the prior employer must be fully preserved by the employee, subsequent to termination of employment, to the same extent as required to be safeguarded during the pendency of such prior employment. This issue should be scrutinized carefully, to avoid any claim or suit by the former employer for misappropriation of trade secrets. For purposes for such review, trade secrets can broadly be considered to encompass any information conferring a competitive advantage on the prior employer and which is not generally known to competitors of that prior employer. Examples of such trade secret information are customer lists, general office procedure memoranda, formulas and bills of materials, assembly drawings, plant layout schematics, etc.

To be enforceable, affirmative actions must be taken to safeguard and preserve the secret character of the trade secret subject matter. If active safeguards and appropriate safeguarding actions are not imposed, it may be difficult for the trade secret owner to enforce an action or claim for misappropriation of trade secrets.

The employment agreements and contracts of an individual should be carefully scrutinized for any post-employment restrictions, particularly in the areas of (i) restrictions on subsequent employment or activities (e.g., non-competition provisions) and (ii) invention disclosure and assignment restrictions, relative to creations, discoveries

and inventions by the individual, deriving from or relating to the prior employment. In this respect, the prior employment agreement/contract documents should be viewed as to their permissible scope, in relation to N.C. General Statutes, Chapter 66, § 66-57.1 (“Employee’s right to certain inventions”). As provided in the statute, the employer’s rights, under agreements with the employee concerning inventions, extend to inventions that “relate to the employer’s business or actual or demonstrably anticipated research or development, or else result from any work performed by the employee for the employer.” On occasion, employment agreements are not signed by the employer, but are acknowledged or signed by the employee. The North Carolina Statute of Frauds, set out in General Statutes, Chapter 25, § 25-2-201.1, provides that an agreement in writing is enforceable against the party who has signed it, assuming that the writing otherwise satisfies the requisites of a valid contract.

The case law construing such employer rights also should be considered, including the standards applied by the North Carolina Court of Appeals in *Liggett Group, Inc. v., Sunas*, 113 N.C. APP. 19, 437 S.E.2d 674 (1993), in which the court cited *Speck v. N.C. Dairy Foundation, Inc.*, 311 N.C. 679, 686-687, 319 S.E.2d 139, 143 (1984), and held that the employer owns an invention if (1) “the employee is hired to invent, accomplish a prescribed result, or aid in the development of products,” or (2) the employee is set to experimenting with the view of making an invention and accepts payment for such work.

## **IX. COPYRIGHT**

Copyright is a legal right which arises in the creation of “works of authorship,” including textual material, writings, computer programs, architectural works, and pictorial, graphic, and three-dimensional sculptural works. No special formalities are required - copyright inheres in the act of creating the work. Nonetheless, to protect the work against innocent infringement, a copyright notice of appropriate form “©” followed by the year of publication, the name of the copyright holder, and the legend “All Rights Reserved.”, should be placed in a prominent location on the work. Further, it is desirable to federally register the copyright, since this permits statutory damages and attorneys fees to be recovered.

Substantively, a copyright is a bundle of the following exclusive rights vesting in the “author” of a “work”:

- (1) the right to reproduce the work (in printed, phonographic, electronic or other media);
- (2) the right to prepare derivative works based on the work (including abridgments, translations, revisions and new editions of the work);
- (3) the right to distribute copies of the work to the public (including distribution by sale, rental or leasing);
- (4) the right to publicly perform the work; and

- (5) the right to publicly display the work.

17 U.S.C. § 106(1-5) (1988).

Copyright protection is applicable to any “original work of authorship” that is “fixed in a tangible medium of expression,” 17 U.S. C. § 102(a), including works in the following categories:

- (1) literary works;
- (2) musical works, including any accompanying words;
- (3) dramatic works, including any accompanying music;
- (4) pantomimes and choreographic works;
- (5) pictorial, graphic, and sculptural works;
- (6) motion pictures, and other audiovisual works;
- (7) sound recordings; and
- (8) architectural works.

Work to be copyrightable must be “original,” 17 U.S.C. § 102(a), i.e., must be the result of independent human effort.

Copyright protection encompasses only the “expression” of a work, not the “ideas” of the work. 17 U.S.C. § 102(a).

The “author” of a work owns the copyright in the work. 17 U.S.C. § 102(a). The author is typically the person creating the work unless the work is a “work for hire” (see below).

If two or more persons collaborate in creating a copyrightable work, intending that their contributions be merged together into an inseparable or interdependent (unitary) whole, the creators are joint authors, and each has a duty to account to the other in respect of profits deriving from the created work.

An employee’s creation of a work within the scope of the employment relationship is a “work for hire,” and the employer is deemed the “author” of and owner of copyright in the work. 17 U.S.C. § 101. “Works for hire” also include works specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional test, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work for hire.

In *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 10 U.S.P.Q. 2d 1985 (1989), the U.S. Supreme Court applied an agency law test for determining whether the employment relationship yields a “work for hire,” based on consideration of the following factors:

- (1) the skill required for the work;
- (2) the source of the instrumentalities and tools used in the work;
- (3) the location of the work;
- (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 and paying assistants;
- (9) whether the work is part of the regular business of the hiring party;
- (10) whether the hiring party is a business;
- (11) the provision of benefits; and
- (12) the tax treatment of the hired party.

Copyrights are statutorily registered by submission of a copyright registration application form to the Registrar of Copyrights in the Library of Congress, with the appropriate deposit specimens, and the payment of the application fee (currently \$30 per work).

The Library of Congress operates the Copyright Office and has extensive information available on copyright and procedure. Requests for Copyright Office publications or specific questions relating to copyright problems can be addressed in writing to Copyright Office, Section LM 455, Library of Congress, 101 Independence Avenue, S.E., Washington, D.C. 20559-6000, and telephone requests for information can be directed to a Copyright Information Specialist at (202) 707-3000.

Applications and materials relating to copyright registration are addressed to Registrar of Copyrights, Copyright Office, Library of Congress, Washington, D.C. 20559. Copyright registration application forms and information circulars may be requested by telephone at (202) 707-9100. The appropriate forms for copyright registration are Form TX (nondramatic literary works); Form SE (serials, such as periodicals, newspapers,

magazines, newsletters, annuals, journals, etc.); Form PA (works of the performing arts); Form VA (works of visual arts); Form SR (sound recordings); Form RE (copyright renewal); Form CA (supplementary registration to correct or amplify information of an earlier registration); and Form GR/CP (adjunct application for registration of a group of contributions to periodicals in addition to an application Form TX, PA or VA). Copyright registration application forms may also be downloaded from the Copyright Office Web site (<http://www.lcweb.loc.gov/copyright/>).

Under the 1998 Sonny Bono Copyright Term Extension Act, the term of copyright protection for works created after January 1, 1978 is the life of the author plus 70 years. If the work is joint, the term of protection is the life of the last surviving author plus 70 years. For works made for hire, the term extends to 95 years from the year of first publication or 120 years from the year of creation of the work, whichever expires first.

The fair use doctrine permits use of limited portions of a work for purposes of scholarly discourse, commentary and criticism, and reporting of news. The applicability of the doctrine is fact-specific depending on factors such as the amount of the work that is involved, the commercial or non-commercial use of the work, and the impact of the use on the market for the work. Any doubts as to the applicability of the doctrine should be resolved by obtaining permission from the copyright owner.

## **X. TRADEMARKS**

Trademarks and service marks include words, names, logos, symbols, and slogans that are used to designate the source of goods and services, respectively. Trademarks and service marks thus come to embody the goodwill of a business associated with its products and services as a result of the commercial use of such marks. Registration of a mark can be obtained if the mark is not “confusingly similar” to existing marks. The “™” designation should be used after the mark to indicate its use as a trademark followed by the name of the goods (e.g., “Woodruff™ Furniture Polish”). Correspondingly, the designation “<sup>SM</sup>” should be used after the service mark followed by a description of the services (e.g., “Silax<sup>SM</sup> Credit Consulting Services”). The “®” designation is suffixed to the trademark or service mark, after such mark is federally registered.

The function of a trademark (such term being used hereinafter to refer to trademarks *per se* as well as service marks) is as an indication that particular goods/services come from a particular source, even though that source may be anonymous or unknown.

Rights in a trademark are created by use of the mark in commerce.

The federal statute governing trademark registration and rights in trademarks is Title 15 of the United States Code, at Sections 1051 *et seq.*

The basis for federal registration of a trademark is use of the mark on or in connection with goods or services, in interstate commerce of the United States. Typically, this

involves an interstate sales transaction. In the case of service marks, this involves interstate publicizing and offering of the services.

Trademarks and service marks may be registered in North Carolina with the Secretary of State's Office, under the provisions of N.C. General Statutes §§ 80-1 *et seq.*

The federal trademark statute was amended by the Trademark Revision Act of 1988, to provide for filing of registration applications for trademarks and service marks, on the basis of a "bona fide intention, under circumstances showing the good faith of such person, to use a trademark in commerce" of the United States. Even though the trademark registration application may be commenced on such "intent-to-use" basis, it remains a requirement that actual interstate commerce usage of the mark must occur before the Federal Registration Certificate can be issued for the mark. An intent-to-use application cannot, under Section 10 of the Lanham Act, be assigned prior to the filing of a Statement of Use (see below) except to the business of the applicant.

Only marks which are sufficiently distinctive in character can be registered. In order to be sufficiently distinctive, the mark must not be generic in character. Further, the mark cannot be "merely descriptive" in character, since merely descriptive terms do not provide a distinctive indication of source. Nonetheless, marks that are descriptive in character can conceivably acquire the distinctiveness necessary for registration, via continuing use of the mark in connection with goods or services which creates an identity in the relevant consuming segment of the public, of the source of the goods and services. "Substantially exclusive and continuous use" in commerce of a mark in connection with goods or services, for five consecutive years prior to the date of federal trademark/service mark application being made, provides a *prima facie* showing of distinctiveness. Under these circumstances, the initially descriptive mark is said to have acquired "secondary meaning" in the relevant consumer market, sufficient to provide a basis for registerability of the mark, in the absence of other countervailing facts or circumstances. Marks may be arbitrary or fanciful in character, and marks which are suggestive as opposed to merely descriptive in character may be registered.

Priority rights in a specific mark thus are acquired by use of the mark on or in connection with goods or services in commerce, or by filing of an intent-to-use trademark or service mark registration application (such filing provides nationwide constructive notice of the rights being claimed in the mark) with subsequent actual use being required to "perfect" the application and secure registration.

Trademark rights are property rights and can be sold, assigned, licensed, or otherwise transferred.

Federal registration entails the filing of a trademark or service mark registration application in the Patent and Trademark Office, with three specimens of the mark as actually used on or in connection with the goods/services in interstate commerce (for an actual use registration application) or with a statement of bona fide intent to use the mark in interstate commerce, without specimens, in the case of an intent-to-use registration

application (however, such specimens ultimately must be filed, either with an Amendment to Allege Use during prosecution of the registration application, or with a Statement of Use if actual use is made of the mark after a Notice of Allowance is issued on the application by the Patent and Trademark Office). The fee for trademark registration application is currently \$245.00 per class, with classes being selected from listings of subject matter categories of goods and services. The mark may be registered in a variety of classes, depending on its usage. The Patent and Trademark Office permits electronic filing of trademark and service mark registration applications to be effected, at its Web site ([www.uspto.gov/teas/](http://www.uspto.gov/teas/)). Alternatively, a registration form can be accessed at such Web site, filled out and printed for mailing to the Patent and Trademark Office.

Once issued a registration certificate, the registration of the mark remains in force for ten years and may be renewed for successive ten year periods. Between the fifth and sixth year of the initial registration term, an Affidavit (or Declaration) of Continued Use must be filed in the Patent and Trademark office, attesting to the fact that the mark as registered remains in use in commerce. The purpose of this requirement is to ensure that only marks still in commercial use remain registered.

If a federally registered mark has been in continuous use for five years after registration and no adverse action against the registered mark has been taken during that time, an affidavit can be filed attesting to such facts, to provide the registration with an “incontestable” status under 15 U.S.C. § 1065. An incontestable registration cannot be canceled except on a showing of likelihood of confusion with a previously existing mark, or genericness of a registered mark, or misuse of a certification mark.

Infringement of a trademark occurs when a same or confusingly similar mark is used without authorization of the mark’s owner, by one other than the mark’s owner in a manner causing deception of consumers, or creating a likelihood of confusion, mistake or deception among potential consumers of the products or services.

Registration of a mark affords certain advantages under the trademark statute. Registration is *prima facie* evidence that the mark is valid and that the owner of the registration has the exclusive right to use the mark in commerce on the goods or services identified in the registration. The statute, at 15 U.S.C. § 1117, provides for recovery of damages for infringement of the registered mark. These damages may include the infringer’s profits, attorney’s fees, and costs, as well as treble damages in specific instances, and injunctive relief also is available. A North Carolina trademark registration may provide the basis for an injunction against infringement, and recovery of the plaintiff’s actual damages and/or the infringer’s profits, as well as destruction of the infringing goods.

The 1996 Federal Trademark Dilution Act provides protection against dilution of “famous” marks. Dilution refers to unauthorized acts that dilute, blur, tarnish, disparage, or embarrass a famous mark. The law applies whether or not the mark is federally registered and whether or not the mark owner and the alleged dilutor compete in the marketplace. A court may consider several factors when determining whether a mark has

acquired the necessary fame to invoke the statute. Those factors include federal registration, the degree of distinctiveness, duration and extent of advertising and publicity, duration and extent of use of the mark, the geographical extent of the trading area, the channels of trade for the goods or services, the degree of recognition, and the nature and extent of third party uses. The mark owner does not have to show a likelihood of confusion. The mark owner may sue in federal court to enjoin the use of the diluting mark and, if the use is willful, recover lost profits, damages, attorney's fees, and, under some circumstances, force destruction of the infringing articles.

The Trademark Dilution Act is, however, limited in scope. The Act does not preempt state dilution laws. The owner of a federal registration may not, however, be sued for dilution under the common law or state law. The Act specifies that some activities are not actionable, including the "fair use" of a famous mark in comparative advertising, the noncommercial use of a mark, and all forms of news reporting and news commentary. The Trademark Dilution Act has been prominently applied to resolve disputes involving Internet domain registrations of "famous" trademarks or service marks.

In clearing prospective trade or service marks for use, commercial databases can be utilized, which encompass U.S. registered marks, marks which are the subject of pending registration applications in the U.S. Patent and Trademark Office, business name directories, corporation name records, etc. Additionally, the U.S. Patent and Trademark Office offers a searchable database of registered and pending marks at its Web site ([tess.uspto.gov/bin/gate.exe?f=tess&state=dua9kf.1.1](http://tess.uspto.gov/bin/gate.exe?f=tess&state=dua9kf.1.1)). Internet domain names should also be checked as part of the clearance procedure, since many potential customers of goods and services will simply log onto the "dot com" site for a product or business name, to access information about a manufacturer of goods or a purveyor of services. It may therefore be desirable to register a domain name for a prospective trademark or service mark, in addition to filing a trademark or service mark registration application for that mark.

In the reverse situation, an existing domain name can be registered as a trademark or service mark, if the domain name otherwise meets all of the criteria for registration of trademarks and service marks generally. 15 U.S.C. § 1051 et seq. To be registerable, such domain name must be used as a designation of source, to identify the goods and/or services of a party and distinguish them from the goods and/or services of others. 15 U.S.C. § 1127.

Internet domain names registered in the U.S. Patent and Trademark Office are typically registered as service marks, for services offered via the Internet. The domain name for registerability purposes must be used as a bona fide "brand" for purveyed services. As stated by the court in *In re Advertising & Marketing Development, Inc.*, 821 F.2d 614, 620, 2 U.S.P.Q.2d 2010, 2014 (Fed. Cir. 1987, "[i]t is not enough for the applicant to be a provider of services; the applicant also must have used the mark to identify the named services for which registration is sought"). Further, it has been held that rendering "expected or routine" services ancillary to the sale of goods does not provide the basis for

registering a service mark. *See In re Dr Pepper Co.*, 836 F.2d 508, 509, 5 U.S.P.Q.2d 1207, 1208 (Fed. Cir. 1987).

## **XI. CONFLICTS BETWEEN DOMAIN NAMES AND INTERNET USAGE OF TRADEMARKS AND SERVICE MARKS**

A domain name is an alphanumeric identifier that is associated with a computer's Internet Address. For the top-level domains COM, ORG, NET, and EDU, domain name registration is handled by Network Solutions, Inc. ("NSI"), a private company under contract to InterNIC, the organization vested with registration authority by the US government. The registration function for domain names is currently being expanded to other registrars, to provide increased services through competition.

Domain registrations are currently processed on a "first come, first served" basis. No investigation is made by the domain name registrar of whether the applicant has any legal rights to the domain name.

Proposed domain names can be checked on the World Wide Web at [www.internic.net](http://www.internic.net) to determine if a same or similar domain name has been registered. One can then register the domain name, if it is free and clear of existing domain name registrations, at the same World Wide Web site. The cost of registration currently is \$75 per domain name. Such registration remains in force for two years, at the end of which time it requires renewal.

With the explosive growth of the Internet, domain names – the "business addresses" of cyberspace – have become increasingly valuable business assets. As such, they have become a source of disputes between those who have registered domain names, and the holders of identical trademarks.

When a dispute arises in the use of a domain name by one party and the existence of a registered trademark or service mark identical to such domain name, owned by another party (such disputes frequently arise when the holder of a registered trademark or service mark seeks to register a corresponding domain name and discovers that the domain name has been "taken" by another), Network Solutions proceeds according to the following policy:

First, the trademark owner must send the domain name holder (as listed in Network Solutions' WHOIS database of domain name registrants) a letter informing the domain name holder of the existence of the trademark, and alleging the factual and legal bases for the trademark owner's belief that the domain name infringes it. The trademark owner must then send Network Solutions a copy of that letter, along with an original, certified copy (not more than 6 months old) of a trademark registration on the principal register of any country, which is identical to the domain name.

If the date of the trademark registration is later than the date of the domain name registration (i.e., the domain name was obtained prior to the trademark), Network Solutions will take no action and the domain name will remain in force.

If the trademark registration predates the domain name registration, Network Solutions will send the domain name holder a letter announcing that the domain name holder has 30 days in which to furnish proof of its right to the domain name, in the form of a registered trademark or service mark registration which predates the notification letter from the complainant. The domain name holder's response within that 30 days determines Network Solutions' next action.

If the domain holder does not respond at all (and if the trademark holder does not request otherwise), Network Solutions will place the domain name on "hold," effectively removing it from use by anyone, until the parties resolve their dispute by agreement or through arbitration, or a court of competent jurisdiction in litigation of the dispute issues a temporary or final order determining who is entitled to use the domain name. The litigation may be premised on the trademark owner's claims for trademark infringement, trademark dilution and unfair competition. Correspondingly, the domain holder may initiate a declaratory judgment action seeking judicial recognition of superior rights (e.g., on the basis that the mark has become generic or otherwise unassertable, or based on laches, unclean hands, etc.).

If the domain holder agrees to give up the domain name (perhaps pursuant to negotiations with the trademark owner), and so requests, Network Solutions will issue another domain name, and will maintain the original domain name for 90 days, to allow an orderly transition by the erstwhile domain name holder to such party's new domain name.

If the domain holder pursues legal action, and provides Network Solutions with a file-stamped copy of a complaint, the domain name will be maintained in its prior status (either in use or on "hold") until the court resolves the issue.

The Network Solutions policy provides a powerful tool for owners of federally registered trademarks in battling both "cybersquatters" who intentionally obtain domain names with a view to selling them to trademark holders, and noninfringing domain name holders as well. This policy also underscores the fact that a federally registered trademark, with the earliest registration date possible, is a desirable asset in the effort to secure paramount rights in a domain name.