Intellectual Property

An Overview of Intellectual Property For Foreign Investors

Trademarks and Copyrights
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Introduction to Intellectual Property (IP) for Foreign Investors

For foreign investors, like other business owners, the most valuable assets of a business are its Intellectual Property (IP). The heart of the IP are four categories of assets: trademarks, copyrights, patents, and trade secrets. Each of these assets is the basis upon which a business is built and thrives. All four categories have unique legal systems that invest ownership in the creator and enable lawful control and exploitation. Generally, IP is managed on a national basis, with a common set of international principles developed over more than a century of bilateral and multilateral treaties.

For all creators, protection starts in one's home country and then extends to the target of foreign investment, which is the United States for the purposes of this chapter. Therefore, foreign investors should always start by first protecting their IP in their home country. Then, once a decision is made to conduct business in the United States, the investors need to take effective steps to protect their IP in the United States.

The U.S. legal system provides one of the most expansive sets of protections for IP assets of any nation. It starts with core, constitutional principles, which are clarified and implemented by federal and state statutes, administrative regulations, and judicial determinations. Some IP, like trademarks and patents, should be identified, cleared as available for exclusive ownership, and protected as early as possible. Other IP, like copyrights and trade secrets, once created, should be protected formally, by registration or contract. Failure to analyze the availability of IP assets for exclusive ownership and to secure full legal protections can place in jeopardy both the assets and the financial investment made to create them.

In the United States, there are limitless options to promote and utilize an investor's product via sale and licensing through traditional channels, online, and through apps. When it comes time to seek additional capital or sell a company, IP assets are the bedrock of the business's value. Protecting an investor's IP and enforcing subsequent rights against infringers requires knowledge of the applicable laws and the ability to react quickly to an ever-changing landscape. This is a basic guide for all foreign investors.

Trademarks and Servicemarks

What Is a Trademark/Servicemark?

Trademarks (for goods) and servicemarks (for services) are the words, phrases, symbols, designs, product configurations, and even colors and smells, that stand for a business in the eyes of the consumer and in the minds of competitors. They are the shorthand expression that defines the goodwill a company has built over time. The central basis for trademark protection in the United States is "use in commerce," and the law protects against the "likelihood of confusion" between a business's mark and a competitor's mark. Trademark rights are exclusive to the proprietor; therefore, it is critical that a business protects its brand as soon as plans to enter the United States are formalized.

How Do Investors Protect Their Trademarks?

In the United States, there are both state (local) and federal (national) ways of protecting a trademark. On the local level, merely using a mark gains *common law rights* and enables a business to carve out protection in the state or states where it operates. An investor can also register a trademark with the state-level Secretary of State (not to be confused with the federal role of the same name). However, common law/state protection will not necessarily prevent someone in a distant state from using the same mark competitively. To best protect against this challenge, investors should plan to secure *federal rights* and take advantage of the benefits of registering with the U.S. Patent and Trademark Office (USPTO). Federal rights are protected under the Lanham Act (15 USC §1051 *et seq*.), which is the federal trademark statute.

The USPTO offers two options for trademark owners. First, before a business begins use, the company can claim a mark by filing an "Intention to Use" application (ITU). An ITU filing can be submitted even before entering the U.S. market, and it is strongly recommended. The ITU is a formal reservation of rights to the mark, which, once allowed by the USPTO, must be perfected by using the mark in commerce. Critically, if someone else (Company B) uses the same mark for the first time after another company's (Company A's) ITU filing, the original company (Company A) can force them to stop that use. However, without the filing, the original company's (Company A's) mark may be restricted instead.

Second, if a company has not filed an ITU, but its mark is in use in the United States, the company can submit a standard application. While not required to secure common law trademark rights, the importance of filing and securing federal registration cannot be overstated. Once a mark is registered, it acquires national protection, and the trademark owner has a virtual monopoly on the right to use the mark for those products or services. That monopoly can be enforced in any federal court in the United States. Also, by international treaties, a registrant can extend protection to other countries.

How Should Investors Select a Trademark for Their Business?

If a company has a brand in its home market or is selecting a new mark for its U.S. business, the company should strive to develop a distinctive mark that will stand up against competitors. The hallmark legal issue in trademark law is "likelihood of confusion," so a company should have a mark that will withstand a claim that it confuses the consumer as to the source of the good or service.

Additionally, trademarks can be characterized by their strength in the public's mind as follows (from strongest and most protectable to weakest or not protectable):

- *Fanciful* marks: these have no dictionary meaning or connection with the business, like Qorvo for technology or radio frequency solutions.
- *Arbitrary* marks: these are dictionary words but have no connection to the goods or services, like Apple for computers.
- *Suggestive* marks: these creatively hint at a feature of the goods or services, like Federal Express for national overnight package delivery.
- *Descriptive* marks: these describe a feature of the good or service, and some are protectable, some not. If, with the investment of time and money, the mark gains public recognition and stands as a unique source, like ChapStick for lip balm, it can be exclusively owned; however, if the description is needed by all competitors to describe the product, like "sun block" for sunscreen, it is not protectable.
- *Generic* terms: these are not trademarks but rather words or phrases that stand for the genus of the product or service, like dry ice or cell phone.

To avoid investing in a brand that would later have to be abandoned (or leave a company vulnerable to charges of infringing another's mark), businesses should conduct a search to determine the availability of the mark in the United States and be assured that it would not create a likelihood of confusion with another's mark. Searches can be cursory or detailed, and the extent of a search depends on such factors as where the mark fits on the strength continuum and how much will be invested to promote the brand. Because of the importance of the internet to marketing, you should also quickly *secure the mark's domain name* as well.

How Does a Business Get Federal Protection for Its Trademark?

Once a mark is "cleared," the next step is to file an application with the USPTO. It is important to file an ITU application before a company commences business in the United States, as well as a standard application once use in the United States commences. There are also treaties, such as the Paris Convention, which allow a foreign entity to claim U.S.

trademark rights based on first use at home. All options for registration should be carefully considered.

The time between filing an application and registration can vary, but typically the process takes about a year. An Examining Attorney reviews the application for technical formalities and to assess whether the mark applied for is confusingly similar to a registered mark. An important note for foreign investors: the Examining Attorney will translate foreign words to assess the meaning and "strength" of the mark.

A letter or "office action" informs the applicant of any issues and must be answered within six months. If approved, the mark is published in the USPTO's Official Gazette, which allows for public comment, including opposition. Assuming no challenge, the application will proceed to registration or, for ITUs, to allowance. Marks allowed by ITU must be in use within three years. A registration is granted for ten years and may be renewed indefinitely as long as it is in use. Nevertheless, every registered owner *must* file an affidavit of continued use in the fifth year after initial registration to get the full ten-year benefit. Failure to file that affidavit will result in registration being canceled. Before registration, a trademark owner can use the informal symbol TM adjacent to the mark to indicate a trademark claim. Once the mark is registered (and only after registration), an owner should adopt the statutory notice symbol, ®.

Special considerations apply to trademarks that might be considered disparaging in the United States or that involve federally banned products (such as cannabis), so early legal help is essential for producers in these cases.

How Does a Business Protect Its Trademark After Registration?

Once a mark is registered, it is important to monitor the marketplace to identify any third party uses that may create confusion. Failure to monitor a trademark and to act on infringements can create cracks in a company's IP claims and open the brand to a claim of abandonment. Trademark "watch services" help monitor USPTO records and provide the opportunity to intervene early to protect a mark.

Copyrights

What Is a Copyright?

Copyright is a bundle of exclusive rights that is accorded authors of creative works, such as movies, books, music, software, or photos. A copyrighted work must be original; have a modicum of creativity; and be fixed in a tangible medium of expression. The law protects expressions, but not facts or ideas, which are an essential part of free speech and the flow of information.

The U.S. Constitution (Article I, Section 8, Clause 8) empowers Congress to grant to "authors" the exclusive right to their writings "for limited times." This power is implemented through the Copyright Act, 17 USC §101 *et seq*. Through copyright law reform, the "limited times" has been extended to nearly a century. Once the term of copyright expires, the work falls into the public domain, which means that it is free to be copied and used by anyone without prior approval.

The exclusive rights granted to a copyright owner are these: the right to reproduce (copy) the work; the right to prepare derivative works based on the original; the right to distribute copies to the public; the right to perform the work publicly; the right to display the work publicly; and the right to perform sound recordings publicly by means of digital audio transmission. These rights can be sold, licensed, loaned, or given away and can pass from one generation to the next.

Importantly, copyright law balances the grant of exclusive rights to owners with a set of limitations designed to permit certain public uses either without consent or subject to a compulsory license. The most prominent limitation is fair use, which defends against a charge of copyright infringement by establishing that the use is permitted, for purposes such as criticism, comment, news reporting, teaching, scholarship, or research. Fair use and other limitations, as well as the compulsory licenses for software and music, are complex and require careful analysis to assure compliance with the statutory requirements.

How Does a Business Protect Its Copyrights?

Copyright rights attach to a work as soon as it is fixed in a tangible form. By treaty (The Berne Convention), there are no "formalities" needed to gain rights; however, federal registration and copyright notice (© NAME and YEAR CREATED), while not mandatory, are essential to enjoy full rights available to copyright owners in the United States. Before filing a case for infringement, the copyright must be registered. If the work is registered before infringement, the U.S. system provides for recovery of actual losses, or alternatively minimum statutory damages ($750-$30,000 per work up to $150,000 in cases of willful infringement), plus recovery of reasonable attorneys' fees. Criminal penalties are possible for certain types of willful copyright infringement. Copyright registration is a simpler and less expensive process than trademark registration. For certain classes of works (such as photographs), group registrations are possible. Further, there are special procedures when registering software programs to maintain trade secrets embodied in code.

What is the Digital Millennium Copyright Act (DMCA)?

In 1998, copyright law entered the internet's digital age with the adoption of the DMCA. The DMCA is an elaborate set of rules dealing with content online; content shared by websites and online service providers (OSPs); and protection of copyright management information. Registration of a DMCA agent with the U.S. Copyright Office is now advisable for OSPs and interactive websites. Given the importance and ubiquity of online websites for businesses today, entities entering the U.S. market should learn and follow DMCA rules of the digital road.

What is a Work for Hire Agreement?

If an employee creates materials for their company within the scope of their employment, the employer owns the copyright. However, if an *independent contractor* (for example, a software engineer or a website designer) creates materials that fall within certain statutory categories (for example, a contribution to a collective work or a motion picture), then unless there is a written "work made for hire" agreement that defines ownership, the contractor may claim copyright. In short, absent specific work for hire language appearing in a written contract, a business risks discovering it does not own clear title to the copyrights it paid for and needs to succeed. If the materials created fall outside the statutory categories, then a written assignment of copyright is required. In any event, a written assignment is an advisable back up to a "work made for hire" provision.

Patents

What Is A Patent?

The United States Constitution grants Congress the power "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." (Article I, Section 8, Clause 8.) Pursuant to that grant, Congress has enacted patent laws, and created a patent office that issues patents to inventors. A patent is a document granting an inventor, or the inventor's assignee, the right for a limited time (currently about 20 years from the date the patent application was filed) to file a complaint in federal court seeking a reasonable royalty and other compensation and relief, including an injunction, against persons and companies practicing the patented invention without authorization, and to file a complaint with the U.S. International Trade Commission for an order barring the importation of goods that infringe the patent.

Who Can Get A Patent?

Inventors can get patents on their inventions. Assignees of inventors can get patents on the inventors' inventions. U.S. patent law authorizes inventors to transfer to any person or company, by written assignment, their rights to patent their inventions, and their rights to any patents already issued. The law provides: “Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing.” (35 USC § 261.) In accordance with that law, employees often assign in writing their patent rights to their employers.

In some states within the United States, and some countries outside the United States, statutes provide that employers own any patentable inventions made by their employees as part of their employment. For example, Nevada Revised Statute 600.500 provides that “an employer is the sole owner of any patentable invention or trade secret developed by his or her employee during the course and scope of the employment that relates directly to work ....” (N.R.S. 600.500).

How Does One Get A Patent?

For employers, start by obtaining in advance from employees a written assignment of any employee inventions and a written nondisclosure agreement obligating them to keep company inventions confidential.

Then, identify potential inventions. Many companies create incentives for employees to create inventions, identify them as potentially valuable, and submit summaries of them to management. These companies also create systems for management to regularly review the summaries and determine whether they merit a patent application. Patent lawyers often assist individuals and companies in identifying and evaluating potentially patentable inventions, obtaining written assignments of inventions from employees, and creating systems for receiving and reviewing invention summaries from employees.

After a potential invention is identified, keep it confidential, and do not sell products embodying it, until an application to patent it is filed or a decision is made to not patent it. *Nondisclosure agreements* can help keep inventions confidential. Public disclosure of the invention (for example in articles or presentations or in sales of products embodying the invention) prior to the filing of an application can result in the loss of patent rights. Patent lawyers routinely advise individuals and companies on how to keep potentially patentable inventions confidential and when to file a patent application.

Finally, file a patent application with the USPTO and prosecute the application through issuance of the patent. Often it is best to file an initial patent application early, to preserve rights in the invention as initially conceived, and then file a second application later after the invention has been more fully developed. Patent rights generally may extend for up to 20 years from the filing of the application.

Why Get A Patent?

Patents can keep out competition over use of one's patented inventions and provide grounds for seeking a reasonable royalty for use of the inventions, for the life of the patents. If an invention that gives a significant competitive advantage is patented, or a patent application is pending, potential competitors may decide not to copy it to avoid the risks of patent litigation. If they do copy it, a successful patent lawsuit may result in a court order prohibiting further copying for the life of the patent; awarding a reasonable royalty; or, in some cases, lost profits and treble damages.

Patents are valuable assets that increase the sale value of a company and its product lines. Potential purchasers of a company or product line often expect the company's products to be protected from wholesale copying by competitors by a substantial patent portfolio. Patents can be valuable assets in negotiating cross-license agreements with competitors. Patents can be a valuable source of income through licensing, litigation, and sale of the patents. The process of identifying, keeping confidential, and seeking to patent inventions can provide a company with incentives to be more inventive.

What Can Be Patented?

U.S. law provides for three different types of patents: a utility patent, design patent, and plant patent. These patents cover three distinct types of patentable subject matter:

- Utility Patent: "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor…" (35 USC § 101);
- Design Patent: "Whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefor…." (35 USC § 171);
- Plant Patent: "Whoever invents or discovers and asexually reproduces any distinct and new variety of plant … may obtain a patent therefor…." (35 USC § 161).

The U.S. Supreme Court has placed some limits on patentable subject matter, holding that laws of nature, physical phenomena, and abstract ideas are not patentable. (*Diamond v. Chakrabarty*, 447 U.S. 303 (1980).) Patent lawyers advise businesses on which of their inventions and discoveries are patentable and the best type of patent protection to seek for them.

Trade Secrets

What Is A Trade Secret?

A trade secret is information that is (a) valuable in a trade or business, (b) secret, and (c) protected by the owner's reasonable steps to keep it secret. The federal Defend Trade Secrets Act of 2016 (DTSA) defines "trade secret" as follows (18 U.S.C. § 1839(3)):

"the term 'trade secret' means all forms and types of financial, business, scientific, technical, economic, or engineering information, … if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information;…"

The Uniform Trade Secrets Act (UTSA) defines "trade secret" similarly (Section 1(4)):

"(4) 'Trade secret' means information … 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."

Who Can Own A Trade Secret?

Anyone can own a trade secret. Anyone who develops the trade secret, or obtains knowledge of it by proper means, may own it. Trade secrets may be acquired by written assignment. For example, part of the acquisition of a company or its assets often includes a written assignment of trade secrets. Employers often require employees to assign to their employer in advance trade secrets they develop or discover during their employment. Some states and countries have statutes that provide that trade secrets discovered by employees are owned by their employers.

How Does One Protect A Trade Secret?

As with patents, employers can start by obtaining in advance from employees a written assignment of any trade secrets developed or discovered by employees and a written nondisclosure agreement obligating them to keep company trade secrets confidential.

Then, companies identify potential trade secrets. A company can offer incentives for employees to identify potentially valuable trade secrets and put in place systems for management to regularly review and determine whether they merit special protection.

When a company identifies a potential trade secret, it should keep it confidential. Public disclosure of the trade secret can result in the loss of legal rights for the secret.

Unlike patents, there is no government office for submitting trade secrets for approval or protection. The owner of the trade secret maintains legal rights in it by taking reasonable steps to keep the information secret. These steps may include labelling documents "secret," segregating them from ordinary business information in a secure location, such as a safe or password-protected computer in a locked room, requiring people with access to the information to sign nondisclosure agreements, minimizing the number of copies of documents that contain the secret, and promptly taking steps to minimize any public disclosure of the secrets.

Why Make the Effort to Maintain Information as Trade Secrets?

For valuable information that is not generally known, establishing them as trade secrets by taking reasonable steps to maintain their secrecy gives them substantial protection under both state and federal laws throughout the United States. Since 1981, almost all states have enacted a version of the UTSA, which is a model Act drafted in 1979 (and amended in 1985) by the Uniform Law Commission, a state-supported organization of lawyers established in 1892 to provide states with non-partisan model laws.

In 2016, the federal government enacted the DTSA (18 U.S. Code § 1836). It is based on the UTSA, but with some changes. It provides a single law against theft of trade secrets related to a product or service used in interstate or foreign commerce. The DTSA applies throughout the United States; can apply to some trade secret theft outside the United States; can be enforced in federal courts and state courts throughout the United States; and can be enforced by the owners of the trade secrets in civil actions and by federal prosecutors in criminal and civil actions.

State laws based on the UTSA and the DTSA create a private cause of action, which authorizes trade secret owners to bring civil suits for theft seeking damages and other relief.

In 1996, the federal government enacted the Economic Espionage Act of 1996 (EEA). It authorizes federal prosecutors to bring criminal actions, and civil actions to enjoin violations, in federal court against persons and companies accused of trade secret theft. Unlike the DTSA and state trade secret laws, the EEA does not create a private cause of action. The EEA contains two separate provisions that criminalize the theft or misappropriation of trade secrets. The first provision (18 U.S.C. § 1831) is directed towards foreign economic espionage and requires that the theft of the trade secret be done to benefit a foreign government, instrumentality, or agent. The second provision ([18 U.S.C. § 1832](#)) makes criminal the more common commercial theft of trade secrets, regardless of who benefits. The EEA provides for the criminal forfeiture of any property or proceeds derived from a violation. The EEA covers conduct occurring outside the United States where the offender is a citizen or permanent resident alien of the United States or where an act in furtherance of the offense was committed in the United States (18 U.S.C. § 1837).

A trade secret owner may also file a complaint for theft of trade secrets with the U.S. International Trade Commission (pursuant to Section 337 of the Tariff Act, 19 U.S.C. § 1337), seeking an order excluding from importation into the U.S. products that incorporate misappropriated trade secrets.

These and other state and federal laws offer substantial remedies for the theft of trade secrets. Like patents, trade secrets can help keep out unfair competition. If confidential information is protected as a trade secret, by taking reasonable steps to maintain its secrecy, potential competitors may decide not to try to obtain it to avoid the risks of trade secret litigation. If they do obtain it through theft or other improper means, a successful trade secret lawsuit may result in a court order prohibiting them from using it and awarding substantial monetary damages.

Trade secrets, like patents and other intellectual property, can be valuable assets that increase the sale value of a company and its product lines. Potential purchasers of a company or product line often expect the company's confidential information to be protected as trade secrets by taking reasonable steps to maintain its secrecy. Trade secrets can be valuable assets in negotiating agreements with competitors and a valuable source of income through licensing and sale. Unlike patent protection, which expires after a limited time, trade secrets may be protected for as long as the owner takes reasonable steps to maintain their secrecy.

What Is Considered A Trade Secret?

Almost any information can be a trade secret if it is valuable to a business and not generally known. The DTSA gives as examples: "patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing." (18 U.S.C. § 1839(3).) The UTSA gives as examples "a formula, pattern, compilation, program, device, method, technique, or process…." (Section 1(4).)

Conclusion

Foreign investors should take steps early to protect their intellectual property in the U.S. Talk to an intellectual property attorney to identify valuable IP and agree on a plan to protect it. Delay may result in the loss of valuable rights. Basic steps include: registering trademarks with the USPTO; using trademarks correctly on products, websites and advertising; registering copyrights with the U.S. Copyright Office; timely applying to patent inventions with the USPTO; documenting steps taken to maintain the secrecy of trade secrets, including nondisclosure agreements with employees and business partners; and obtaining and granting necessary IP licenses and assignments.

Further information on how to protect intellectual property in the U.S. can be found at the USPTO website, which provides basic information on patents, trademarks, copyrights and trade secrets, and at the U.S. Copyright Office website, which provides basic information on copyrights.

About Klarquist Sparkman, LLP (Authors of IP Section on Patents and Trade Secrets)

Klarquist Sparkman, LLP was founded in 1941, and is one of the oldest and largest full-service intellectual property boutique firms in the Northwest United States. Based in Portland, Oregon, its clients are at the cutting edge of technology and innovation. The firm includes more than 60 attorneys and patent agents who represent a broad range of clients, including solo inventors, mid-size companies, large corporations and major research institutions. The firm provides the technical and legal experience needed to preserve, protect, and defend in litigation all intellectual property rights. Klarquist Sparkman is a proud member of INBLF. Learn more by visiting www.klarquist.com.

About Lutzker & Lutzker LLP (Authors of IP Sections on Trademarks/Copyright) and INBLF

Lutzker & Lutzker LLP is a boutique firm focused on intellectual property, entertainment, high tech, and privacy issues. The firm provides counseling, transactional and litigation services to traditional businesses, educators, and creative professionals. Lutzker & Lutzker LLP is a proud member of INBLF, and Arnold Lutzker serves as the president of the law firm network.

INBLF is a network of hundreds of boutique law firms in nearly 40 jurisdictions throughout the U.S. and Canada, and dozens of full-service law firms in more than 30 countries around the globe. INBLF law firms stand ready to assist foreign investors with all legal services needed to realize their dreams of investment in the United States.

Disclaimer

The sections on trademarks and copyrights in this chapter were prepared by Arnold Lutzker and Susan Lutzker of Lutzker & Lutzker LLP. The sections on patents and trade secrets in this chapter were prepared by Jeffrey Love and Ramon A. Klitzke II of Klarquist Sparkman, LLP. Views expressed in this chapter are the author's own, not that of the International Trade Administration. This chapter does not constitute legal advice. Readers interested in investing in the United States should consult legal counsel.