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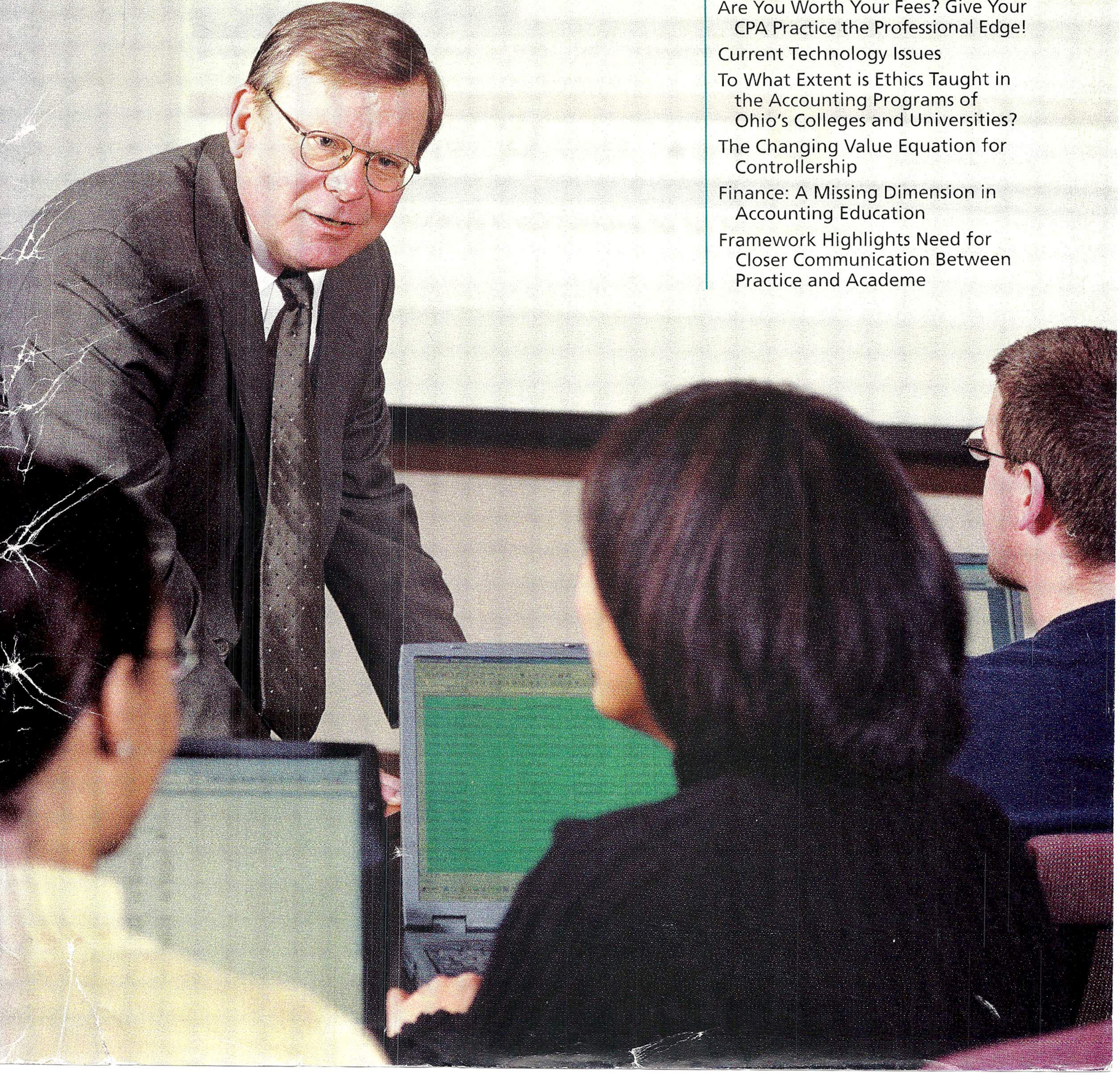

Current Technology Issues

by Gregg Zegarelli, Esq.

Technology moves fast, and its speed increases exponentially. In the old days, circa 1995, the Internet was still commercially untested, and probably only a small percentage of your clients were seriously interested in technology-related legal issues. That was then, this is now. Now, technology is fundamentally ubiquitous; if your clients are interested in being competitive, then they must understand how the latest changes in the law can have an impact on their decision-making.

The purpose of this article is to provide you, as a professional consultant, with a small snapshot of various non-tax legal issues affecting your commercial clients. "Flags," if you will—just enough information to allow you to add value to your professional service, by possibly seeing an issue and directing your ever-thankful client to obtain a full resolution with their legal counsel. Regardless of whether your clients or their respective attorney already knew about an issue, you score big points. Dare it be said, however, that, by reading the following, you may have a better handle on these issues than 95 percent of all attorneys (so, try not to grin too much when you catch an attorney off-guard).

Remember, these highlights do not attempt to overly explain the purpose or reasoning underlying the state of the law.

Copyrights

A copyright is one of the four intellectual property ("IP") rights; the other three are trademarks, trade secrets and patents.

A copyright protects the author of a tangible work. Note that a copyright is a legal right to copy. It is not to write copy; thus, formatives of the word "copywritten" are not applicable. Copyright law is exclusively federal law.

You do not need to register the copyright to have a copyright (the author owns the copyright immediately upon creation). However, if the copyright is registered with the federal government within **three months** after the work is first published, then the owner will acquire additional legal rights making it easier to prove damages. Intangible ideas are not protectible; only a particular tangible *expression* of an idea is protectible. Compare the distinction of the once new *idea* of an icon-oriented computer interface with the actual icons used in any particular icon-oriented computer interface: that is, the Microsoft versus Apple icon interfaces. Microsoft can use an icon interface, as can Apple Computer, but not the same icons to represent the same function.

A copyright notice is not required since 1989, but strongly suggested, so as to eliminate an "innocent infringement" defense. The form of the notice is the word "Copyright" or, preferably, the "©" symbol, the year of first publication, and the owner's name. Adding "All rights reserved." is not required, but is also suggested for additional international protection.

There are effectively six legal rights: to copy, distribute, perform, display, transmit and create derivative works. An easy example of a derivative work is the shortened television version of a major motion picture. The owner of a copyright can transfer the entire copyright, or license any or all of the rights, in whole or part. By analogy, an owner of a building may decide not to sell it, but, instead, to lease one or more floors, for various terms of years, with each such lease having differing rights relating to assignment and subleasing. This is the job of an IP licensing lawyer: to properly divide the legal rights so only limited rights are temporarily transferred. If your client is the author of computer software, make sure there is a proper written license agreement; a merger/acquisition opportunity can fall apart because an acquirer cannot determine the terms and conditions surrounding a use of a software asset.

The author initially owns a copyright. But, who is the author? It is not intuitive, so be very careful. The author is the creator of the work, unless it is a "work made for hire." A "work made for hire" is either: 1) a work created by a Form W-2 employee within the scope of employment; or 2) created by a) an independent contractor; b) creating one of nine types of works; **and** c) with a written agreement calling the work a "work made for hire." Yes, if your client hires an independent consultant, there are three conditions to ensuring your client owns the work—and it's not as easy as just calling it a "work made for hire." Important: who pays for the work is not a criterion of basic analysis. Therefore, if your client is paying for the creation of any copyrightable subject matter (such as Web sites and other computer software) from an independent consultant, there should be a written "work made for hire" agreement with additional assignment terms, or the consultant may continue to own the work.

A brief mention of a few new laws: The new Sonny Bono Copyright Term Extension Act increased the term of a copyright to 70 years from death of author, or, for a work made for hire, the earlier or 95 years from publication or 120 years from creation. Based upon the recent Digital Millennium Copyright Act, Internet Service Providers, who supply connections to the Internet, can avoid contributory copyright infringement claims for others using their site, but they must file a Statement of Designation with the Copyright Office. With the passage of the Damages Improvement Act, damages were increased to \$750-\$30,000 per work infringed, and can be as high as \$150,000 for willful infringement.

Trademarks and Domain Names

Unlike the other IP rights, trademarks have almost universal applicability to your clients. Here's why: businesses have names, businesses create valuable reputations, businesses want to own their name, and businesses are not permitted to confuse the public as to source of goods and services. Accountants and attorneys have traditionally shared the role of forming business entities for clients; however, because of the increasing complexities of trademark dynamics, accountants (and non-IP lawyers) should take a competency reality check before assisting clients with choosing company and product names.

Having said that, a trademark protects the reputation of the enterprise as it relates to the use of a word, picture or slogan in its marketing efforts. The word "trademark" is often used generally, but, more specifically, a "trademark" relates to products and a "service mark" relates to services. In short, a trademark protects "secondary meaning;" that is, see "Hoover" think "vacuum cleaner." Like a copyright, you do not need to register a trademark to own a trademark, legal rights are acquired with commercial use. Trademark law exists at both the federal and state levels.

Here is a fictitious example to distinguish a trademark from a copyright: on your own time, you draw a mouse with human characteristics with big ears and red, short pants, and you call it "Mickey." You own the copyright. The Disney Corporation wants to use your mouse as its logo. You license them the right to do so. Disney acquires trademark rights based upon your license, even though you continue to own the copyright. Unlike a copyright, trademark rights can continue forever, so, in the previous example, a temporary license would not make practical business sense —Disney would probably want to acquire "all right, title and interest" in the copyright, not just obtain a license. Copyright law protects the author's *ownership interest* in the artwork, trademark law protects the *commercial reputation* based upon use of the artwork.

Why register a trademark? First of all, without a registration, trademark rights are generally acquired only in the territory of actual use. Without filing with the United States Patent and Trademark Office, could someone see a trademark used only in Cleveland, and then use it in San Francisco? Yes. Many states provide for a trademark registration; however, such a registration does not often grant meaningful substantive rights. A federal filing creates an "effective" use throughout the country. A federal registration of a mark, therefore, is really the only way to "lock-up" a name. **Be very careful here:** getting a corporate or assumed/fictitious name has no direct bearing on trademark rights; there are countless times that non-IP attorneys and accountants have incorrectly advised clients that getting a corporate name protects the trademark. In fact, it could be evidence of an infringement. Quite simply, they are different tracks of analysis. For example, try calling your state Corporation Bureau to see if the name "Microsoft Fuzzy Logic, Inc." is available; they may say it is, and you could set up the company with that name, and you would get sued by Microsoft for trademark infringement. Most state corporation bureaus check for "technical distinctiveness" for tracking the entity, not the trademark "substantive distinctiveness" that prevents confusion in the marketplace. Any new business should investigate the trademark implications and seriously consider filing for a federal registration.

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When evaluating registering a federal trademark, there are generally four standards:

- generic,
- descriptive,
- suggestive,
- fanciful.

A generic word, such as "spoon" is not able to be used as a trademark. A descriptive phrase, such as "red delicious" for apples is generally not able to be registered as a trademark, but may be registered after it acquires "secondary meaning," presumed after five years of use. Suggestive marks like "Coppertone" that suggest the nature of the product are registerable, as are fanciful marks, such as "Xerox." Generally, advise your client to use a fanciful mark, it will achieve the highest market value.

Unfortunately, here's what happens: new companies often want to use descriptive words in the company name to provide an idea of the nature of the service, like "John's Cleaning Services," but this is not preferred for trademark purposes. Suggest a fanciful name, like "JOCSERVS" then use a descriptive tag line like "John's Fine Cleaning Services"; thus, the client will build trademark rights in the primary fanciful name, and the tag line (which can always be removed after the name acquires secondary meaning) will supply the selling description. Does "JOCSERVS" sound strange to you? Remember, when "KODAK" and "XEROX" got started, their names didn't mean anything either.

You cannot use the "®" symbol until you receive a Federal registration of a trademark. From the date you file the application for registration, you are protected, but it can take as long as one year to obtain the registration. A registration is valid for 10 years, but a filing must occur between the fifth and sixth year after registration to prevent abandonment of the registration. During the pendency of a Federal application for a trademark, or even if your client is not intending upon registering the mark, you might suggest use of the "SM" and "TM" symbols, for services and trades (products) businesses, respectively, which will put the public on notice that rights are claimed in the unregistered mark.

The issue of domain names has been a hot topic of late. As of a couple of years ago, acquiring domain names was the new gold rush. Domain name "squatters" were registering mass domain names in the hope of leveraging big buy-outs from major corporations that were not quick and deft enough to register their company names. Well, that party is over: the laws have caught up with the issue. Specifically, as a result of the Anti-cybersquatting Consumer Protection Act of 1999, the owner of a registered mark can seek relief against any person who, in bad faith, registers, traffics or uses a domain name that is identical, confusingly similar to, or dilutes a name or mark. Thus, if a squatter is battling with a registered trademark owner, the squatter will now usually be out of luck. To be fair, there are ways to legally squat on a domain name, but explaining how to do so is beyond the scope of this article, and the cost to the squatter can exceed the benefit.

Here's our general standard question set when a client calls about a mark: What is the mark; is it fanciful or descriptive; is the domain name available; if the domain name is taken, is the domain name owner in a related industry; if no domain name is available or prior domain name owner is in a different industry, then has anyone else filed a trademark application with the United States Patent Office for a similar mark; are there any traceable prior uses of the mark; if no prior trademark filings or if any prior filer(s) and users are in different industries, then acquire a domain name and file the trademark application.

The United States Patent and Trademark Office now has a very powerful Web site (www.uspto.gov) that includes online searching and filing, with credit card payment. Again, however, notwithstanding the convenience of filing, be very careful before advising your clients in this area, as you could be held to the standard of an IP lawyer, and this area of the law is very dynamic and tricky.

Trade Secrets

A trade secret is a secret that gives a business a commercial advantage. Simple enough, but there are a few tricks to keep in mind when you advise your clients.

For example, there are a plethora of legal documents that provide that confidential information will be maintained for five years. But, there is no inherent reason for this limit, and even otherwise very sophisticated attorneys misunderstand the issue. A secret like the formula to Coke or the KFC chicken recipe could be (and should be) a secret forever. Unfortunately, the drafting confusion has caught on. Often what clients intend to say is that the window of time within which any information traded will be considered to be confidential is five years, even though information traded within that window of time could remain confidential forever. However, instead, they say that the confidentiality obligation will only be for five years. Stated another way: trade information on the last day of the five years, it is confidential and could be protected forever; trade the information one day after the five years, it is not confidential information. Of course, if your client is *receiving* the confidential information, the analysis will obviously change.

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Another major common mistake is that some business persons think that a "mutual" confidentiality agreement must be acceptable for signing: it's mutual, right? But, the problem is that such documents almost always say, "what is yours is yours, and what is mine is mine." The problem is that the document does not address the question that will be at issue in a dispute: "what is the actual stuff that is yours, and what is the actual stuff that is mine?" That is, the agreement begs the basic question. Always try to specifically identify the genus and species of the confidential information to be respectively traded. Many mutual agreements do not even come close to handling who owns any new subject matter that may be created as a result of the trading of information. And, generally, clients are best advised not to sign mutual confidentiality agreements unless there is a true mutual exchange of information, since it misrepresents the true flow of information.

Keep in mind that a secret must be treated like a secret. Thus, employees and consultants should sign a written confidentiality agreement. Trade secrets are also the only method to attempt to protect ideas, since ideas cannot be protected by copyright or patents, which protect only the specific implementation of the idea. However, protecting a general idea in confidentiality agreements requires great deftness, even from IP lawyers, and clients are usually best advised to reduce the idea to a tangible form that would otherwise satisfy copyright standards, even if the work remains confidential and unpublished.

Patents

Patent rights are determined exclusively by federal law. In short, a patent is the exclusive right to make, use or sell an invention for a period of 20 years. The government grants this "monopoly" in return for a public disclosure of how the invention operates. So, here's the deal: the public benefits by having the opportunity to review, and presumably improve upon, the invention, and the inventor benefits by receiving a legal monopoly on the patented work.

There are generally five requirements:

1. the applicant must be the inventor;
2. the invention must be "patentable subject matter;"
3. the invention must be novel;
4. the invention must be useful; and
5. the invention must not be obvious.

Similar to copyrights, ideas are not patentable, although the particular *application* of ideas are.

Generally, the person who applies for a patent must be the first person to conceive of the invention and reduce it to practice. An invention is conceived when there is a definite idea of the complete invention and all of the steps necessary to create it. An invention is reduced to practice when it is actually created or when the patent application is filed with the Patent Office. There is an exception if a person is hired for the purpose of inventing or if employees have assigned their rights to the patent. Again, watch for jointly created works.

If a process was previously disclosed to the public, then it is considered to be "anticipated" by the prior art, and thus, it is not novel. The Patent Office considers an invention to be previously disclosed if it was publicly known or used by others in the United States or was patented or described in a printed publication in any country more than one year prior to the date of filing the application. However, some important foreign patent laws in this regard are much more restrictive than United States laws, so proper advice should be obtained prior to the release or public use of the patented technology. Inventors should be extremely cautious when publicly testing potentially patentable subject matter, and confidentiality agreements are a must.

The Patent Office now has a "disclosure document" filing, which allows an inventor to document the date of the invention with the Patent Office, prior to filing the patent application. The disclosure filing will be valid for two years, but the two-year period is not a "grace period" and the inventor must still timely file the patent application.

The requirement that a patent be "useful" is derived from the United States Constitution which gives protection to "useful" arts. The utility of an invention must be affirmatively demonstrated in the patent application because otherwise the patent would give such broad protection that it would be protecting the idea itself rather than the application of the idea. "Non-obviousness" means that the process embodied in the patent claim represents more than merely the next obvious step in the development of the art to which the claim relates. The difference between novelty and non-obviousness is that novelty asks whether the invention is new and different; non-obviousness asks whether a person could or would have thought of the invention given exposure to the prior art.

Uniform Computer Information Transaction Act (UCITA)

On July 29, 1999, the National Conference of Commissioners on Uniform State Laws (NCCUSL) adopted the Uniform Computer Information Transaction Act (UCITA). This is a uniform state law, which means, like the Uniform Commercial Code, that each state will need to unilaterally adopt the law in some form. Therefore, the law will apply only in any state that has adopted the law. At the time of this writing, only Maryland and Virginia have passed UCITA, and only Hawaii, Iowa, Illinois and Oklahoma have entered legislation, with Washington, D.C. recently getting into the fray.

In short, this new law is a blend of the Uniform Commercial Code and copyright law as applied to technology. The discussion regarding this new potential law has not been friendly, however, as there has been much heated debate from many interest-groups regarding its application and necessity. From 1995 until Spring of 1999, UCITA was known as Uniform Commercial Code Article 2B, but that was abandoned in controversy. UCITA enforces the broad use of "shrink-wrap" and computer "click-on" licenses (called "mass-market licenses" in UCITA). The scope of UCITA is extremely broad. For example, "computer information," under UCITA, includes everything from copyrighted expression, such as stories, computer programs, images, music and Web pages, as well as other traditional forms of intellectual property, such as patents, trade secrets, and trademarks. It also includes newer digital creations such as online databases and interactive games. Here's the rub: during the years of debate over UCITA, interpretations of pre-existing law regarding technology issues have already begun to evolve. Many legal community commentators are of the opinion that UCITA is now not necessary.

While it may be important for you to inform your clients that this new law is looming, because of its current limited enactment, we will need to wait and see to what extent the law becomes accepted.

Electronic Signatures

There are two general categories of laws. Individual state laws, generally as sponsored by the NCCUSL, adopted in the form of the Uniform Electronic Transactions Act (UETA), and the Federal Electronic Signatures in Global and National Commerce Act (ESIGN).

UETA was adopted by the NCCUSL in July, 1999, and ESIGN became effective on Oct. 1, 2000. The subsequent passage of the Federal ESIGN has made the mix more interesting, since it preempts UETA to some extent and forces the legal analysis of whether a state law exists, whether it is UETA compliant and whether the provisions are more or less restrictive than ESIGN. At least 18 states, including California, Pennsylvania and Ohio, have passed versions of UETA.

Regardless of what provisions of each state law are effective or are preempted by ESIGN, the consolidated result is that the laws ensure that: with respect to any contract entered into, and notwithstanding many pre-existing laws to the contrary, the validity of such contract will not be denied just because the contract is founded upon an electronic record or has an electronic signature. The laws set forth a framework for covered transactions, and attempt to avoid surprises for unsophisticated parties dealing in relatively new media. The laws also provide a solid legal framework for the continued evolution of e-commerce.

The bottom line is that electronic signatures are now enforceable in many instances. The primary exception is where documents must be notarized and recorded with governmental agencies, such as deeds. If you have clients dealing with electronic transactions where electronic signatures have been avoided because of the unsettled law, they may now have new opportunities for revised business models.

Privacy

The United States Federal Trade Commission has taken a great interest in the marketing efforts of Web sites, as well of the use of the data which is solicited over the Internet. On April 21, 2000, the Children's Online Privacy Protection Act (COPPA) became effective. This new law has widespread implications for e-commerce.

Basically, COPPA became necessary because of the "hey kids, want some candy?" types of Web sites. Those Web sites that target children to solicit their personal information. However, all e-commerce sites must evaluate whether they unwittingly fall into the scope of the law.

In short, if the e-commerce site targets children younger than 13 years old or knowingly receives information from children of the same age group, the site must comply with a plethora of new standards and constraints. The law is certainly well-intended, but you need to counsel your clients to evaluate all of their on-line questionnaires, databases and target audiences. For example, if your client has a teenage clothing store or sporting goods store, it may be deemed to target children, and the law would apply. As a result, your client would need to obtain parental consents, as well as track the use and access to the specific data. These standards become particularly consequential in mergers and acquisitions in a dynamic industry.

In conclusion, technology issues are now completely intertwined with your clients' traditional strategic business decisions. Only with an understanding of some of the hottest legal issues, can you give the advice and direction that your client requires.

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