

It's All in the Name
Intellectual Property Issues to Consider in a Business Start-Up
by Maria Crimi Speth

When a client asks you to incorporate his new business, or to assist in forming a limited liability company or a partnership, or even for advice on start-up of a sole proprietorship, you need to recognize that there will likely be intellectual property issues involved. You probably know that if the business will have a fictitious name, that name should be filed with the state and must be recorded with the county¹. Most attorneys assisting in business start-ups fail, however, to appreciate that the business' name may be a trademark that must be searched at the federal level, and fail to advise regarding the benefits of registering the name with the United States Patent and Trademark Office (PTO). Even more attorneys fail to talk to their clients about protecting their slogans, graphic designs or logos, copyrights of original documents, computer programs or creative designs, and preparing appropriate contractual agreements to protect other intellectual property rights. While the specifics will vary depending on the size and type of business, all business attorneys should have a basic understanding of practical intellectual property concepts, including how to protect what may be the company's most precious asset — its name.

Protecting Your Client's Trademark

When a client comes to you for help at start-up time, it is before he has invested time, money and his reputation in a name. That is the perfect time for you to explain the importance of protecting his name and trademark. While a tradename identifies the business, a trademark identifies the product or service. In a service industry the company's name may also identify the service the company provides, making it the company's trademark. If the company provides a product, the product's name is a trademark.

Choosing a Name

If your client comes to you before he has chosen a name for his business or his product, encourage him to choose a unique trademark. Not only is it less likely that another company will use a unique mark, more unique marks are easier to protect legally. Courts categorize trademarks as "generic," "descriptive," "suggestive," "arbitrary" or "fanciful." A generic trademark would be a movie theater called the "Movie Theater." A descriptive mark describes the product or service, such as "Raisin Bran" or "Burger King." Suggestive marks suggest something related to the service or product they describe, such as a Ford "Mustang" or "Bronco," suggesting speed or strength. An arbitrary mark uses a term which bears no relationship to the product or service like Camel cigarettes or Shell gasoline. A fanciful mark is a coined or invented word such as Clorox or Kodak.

Generic marks are the hardest to legally protect while fanciful marks are the easiest. If your client wants to call his movie theater "the Movie Theater," he will not receive the protection of trademark laws until he uses the name long enough to acquire secondary meaning — an association in the minds of the consumer between that name and your client's service. The same is true of a highly descriptive mark. It is also difficult to protect geographic names where the geographic term merely describes where the business is or merely indicates a location consumers expect a product to come from, such as Vermont Maple Syrup. More unique names can be protected as soon as they are used and can even be registered based on an intent to use.

Trademark Searches

Once the name is chosen, you must determine whether your client has the right to use it. Searches should be done before the client invests money in the name. A common misconception is that local, small businesses only need to search at the state level. No matter how small the business, the PTO records must be searched. A federal trademark registration provides the registrant with a presumption of constructive use of the mark throughout the country². Your client could unknowingly begin using a mark that is the same or similar to a registered mark, advertise the mark and achieve success and goodwill and then lose it all to a federal registrant. Worse yet, your client may be the subject of a lawsuit seeking not only an injunction but damages for infringement. That your client searched local records such as the county recorder's office and the secretary of state to determine name availability will not insulate your client from liability or provide him with the right to use the name. The federal trademark laws make clear that a federal registrant has superior rights to use the name over a subsequent user despite the fact that the subsequent user filed a state trademark registration, or a state tradename registration³.

A local case publicized last year demonstrates the superiority of a federal registration over a state registration. In May of 1981, Lone Star Steak House and Saloon, Inc., a Wichita, Kansas company, was issued a federal trademark registration for "Lone Star Cafe." In 1985, a local company opened "Lone Star Steaks" after an apparent failure to search with the PTO to ensure that the name was available. Had Lone Star Steaks searched the PTO, it would have found the "Lone Star Cafe" registration. When Lone Star Steak House and Saloon of Kansas announced its plans to expand its restaurant chain into Arizona, Lone Star Steaks ended up being forced to change the name which it had advertised and promoted since 1985. Lone Star Steaks was out of luck.

Trademark Registration

While a search of the PTO records is always necessary, actual registration with the PTO is not always necessary. It should, however, be explored with the client so that the client can make an informed decision about whether to spend the money for the registration. If your search of the local directories and state, county and PTO records reveals that the name is available, your client has the exclusive right to use that name. He should, at that point, file an inexpensive, uncomplicated tradename and/or trademark registration with the secretary of state and record a certificate of fictitious name with the county recorder.

A common misconception is that a state filing entitles the filer to use the name throughout the state. A state registration provides only limited protection as against someone who later files a federal registration. As long as there is no federal registration when a company begins using the mark, the user will be protected *in his area of prior use*.⁴ Just because he files a state registration, does not mean the whole state is his area of prior use. His area of prior use may be strictly construed by the courts *and* he will not be able to expand beyond his area of prior use once a federal registration is filed.

Another local case demonstrates this problem. Hollywood Video, an Arizona corporation ("Hollywood Arizona") began using the name in 1991. Before the owners used the name, they did local and state searches and filed a state tradename registration. There were no conflicting registrations with the PTO. Hollywood Arizona opened two video stores in Phoenix. In 1993, after the two stores were opened, an Oregon corporation (Hollywood Oregon) filed a federal registration for the trademark "Hollywood Video."

In 1994, Hollywood Oregon announced plans to open Hollywood Video stores in Phoenix. At about the same time, Hollywood Arizona was in the process of opening its third store. Hollywood Arizona sued Hollywood Oregon requesting an order that Hollywood Oregon be prevented from using the name in Hollywood Arizona's area of prior use. Hollywood Arizona argued that the area of prior use should be construed as the State of Arizona since they had filed a state registration which appeared to give them the right to use the name throughout the state. Hollywood Arizona expected that their area of prior use was at least the City of Phoenix, where they had advertised their name extensively and gained name recognition. Hollywood Oregon admitted that Hollywood Arizona was entitled to keep its area of prior use but argued that the area of prior use was limited to a two-mile radius around each of the stores that were open at the time of the federal registration. The District Court agreed and granted Hollywood Oregon's request that Hollywood Arizona be forced to change its name in its third location, which was opened after Hollywood Oregon's federal registration was issued. Hollywood Oregon proceeded to open locations in Phoenix (but outside of a two-mile radius of Hollywood Arizona) using the name "Hollywood Video."

Unless your client feels comfortable that he does not intend to expand outside his current area of business and is not offended by the idea of having a neighbor in the same business, using the same name, he should strongly consider filing his name with the PTO.

Product and service names are not the only trademarks entitled to protection. A design, a slogan, a sound and even a color can be entitled to trademark protection if it is unique and well known enough that the client's customers associate it with your client's business as the source. Likewise, your client may have developed a distinctive trade dress, the packaging of a product or presentation of a service, which is protectable under the trademark laws. Your client may also be using or intending to use a trade dress that is already protected. For instance, no matter what he calls it, if your client markets a soup that has a certain red and white label, he has probably infringed on Campbell's trade dress protection.

Copyright Protection

As a start-up business, your client needs advice on how to protect all of his intellectual property, not just his name. If he has developed a logo, his logo may be entitled to copyright protection in addition to trademark protection. Your client should consider copyright protection for any tangible expression of the company's ideas, including graphic designs, original works of writing or art and computer software

programs. Copyright protection automatically attaches to any original works of authorship fixed in any tangible medium of expression including literary works, musical works, dramatic works, pictorial, graphic and sculptural works, audiovisual works, sound recordings and architectural works.⁵

To determine whether an item is protected under the copyright laws, ask your client whether the information is original, whether the information is fixed in a tangible form, and whether the protection is really sought for the expression and that the real value does not reside in the idea itself. If those questions are answered affirmatively, the items should be protected under the copyright laws.⁶ While those items are automatically protected under the copyright laws, they should bear proper copyright notices and the client should be advised about copyright registration in appropriate situations. If the protection is actually sought for the idea, rather than the expression of the idea, then a trade secret agreement should be recommended to be obtained before the idea is disclosed.

Trade Secret Agreements

You should explain to your client that while copyright laws are designed to foster widespread distribution by the author of original works without unauthorized or uncompensated copying, trade secret laws require maintenance of secrecy and restricted distribution.⁷ It can be inconsistent to place a copyright notice on a document that is designed to be kept strictly confidential.

You should explore with your client whether any of his business documents or information warrants the protection of trade secret agreements. While every business is different, one example is an internal software program that was created for use by the company. If your client does not want his competitors to have the same edge that program gives him, he needs to protect it from dissemination. Any employees or consultants who are given access to the program should first be required to enter into an agreement acknowledging that it is proprietary information and agreeing not to disclose it.

Almost any proprietary information can be protected by trade secret agreements and any company with employees shares that proprietary information with potential disseminators. Employees should be required to sign well drafted non-disclosure and non-compete agreements if they are going to be privy to sensitive information. Your client certainly would not want their employees to leave and offer that information to your competitors in order to obtain replacement employment.

Further, if your client hires an outside consultant, he may be required to share sensitive information with her to enable her to do her job. That consultant may also be doing work for your competitors and is in a unique position to utilize the information that your client has spent time and money to develop in order to foster her relationship with your client's competitor. Warn your clients that consultants should never be given access to proprietary information without first entering into a non-disclosure agreement.

Another important area of intellectual property to discuss with your client is the creation of such property. Whether created internally or externally, the company should have an agreement in place with the employee or consultant which makes clear that the design, document or program is a work-for-hire owned by the company and not the creator. Many outside consultants will present your client with an agreement that includes (in the fine print, of course) a provision that the consultant owns the work product and licenses it to the company for limited use. Make sure your client understands the implications of such agreements and protects himself.

Conclusion

If you don't bring intellectual property issues to the attention of your clients, they may not appreciate the importance of protecting their intangible property. If you do, clients will appreciate that you are looking out for their company and helping it to achieve success.

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ENDNOTES

1. A.R.S. § 44-1460 provides for the registration of tradenames with the secretary of state. A.R.S. § 44-1236 provides that any person other than a partnership transacting business in this state under a fictitious name shall record a certificate with the county recorder providing the name and address of the owner.
2. 15 U.S.C. § 1057
3. See *Burger King of Florida, Inc. v. Hoots*, 403 F.2d 904 (7th Cir. 1968).
4. 15 U.S.C. § 1115(b)(5)
5. 17 U.S.C. § 102
6. Michael A. Epstein, *Modern Intellectual Property*, §4.01[A][4] (3rd ed. 1995).
7. Michael A. Epstein, *Modern Intellectual Property*, §4.04 (3rd ed. 1995).