ABOUT THE JOURNAL

The Wake Forest Journal of Business and Intellectual Property Law is a student organization sponsored by Wake Forest University School of Law dedicated to the examination of intellectual property as it interacts with business in the legal context. Originally established as the Wake Forest Intellectual Property Law Journal in 2001, the new focus and form of the Journal, adopted in 2010, provides a forum for the exploration of business and intellectual property issues generally, as well as the points of intersection between the two, primarily through the publication of legal scholarship. The Journal publishes three print issues annually. Additionally, the Journal sponsors an annual symposium dedicated to the implications of intellectual property law in a specific context. In 2009, the Journal launched an academic blog for the advancement of professional discourse on relevant issues, with content generated by both staff members and practitioners, which is open to comment from the legal community. The Journal’s student staff members are selected for membership based upon academic achievement, performance in an annual writing competition, or extensive experience in the field of intellectual property or business.

The Journal invites the submission of legal scholarship in the form of articles, notes, comments, and empirical studies for publication in the Journal’s published print issues. Submissions are reviewed by the Manuscripts Editor, and decisions to extend offers of publication are made by the Board of Editors in conjunction with the Board of Advisors and the Faculty Advisors. The Board of Editors works closely and collaboratively with authors to prepare pieces for publication.

The Wake Forest Journal of Business and Intellectual Property Law welcomes manuscript submissions, which should be accompanied by a cover letter and curriculum vitae, and may be sent electronically to wfujbipl@gmail.com or by mail to:

Manuscripts Editor
Wake Forest Journal of Business and Intellectual Property Law
Wake Forest University School of Law
P.O. Box 7206 Reynolda Station
Winston-Salem, North Carolina 27109
BOARD OF ADVISORS

KENNETH P. CARLSON
Constangy, Brooks & Smith, LLP; Winston-Salem, North Carolina

RODRICK ENNS
Enns & Archer, LLP; Winston-Salem, North Carolina

EDWARD R. ERGENZINGER, JR. PH.D.
Duke Human Vaccine Institute, Duke University School of Medicine; Durham, North Carolina

JASON D. GARDNER
Kilpatrick Townsend & Stockton, LLP; Atlanta, Georgia

STEVEN GARDNER
Kilpatrick Townsend & Stockton, LLP; Winston-Salem, North Carolina

ROB HUNTER
The Clearing House Payments Company, LLC; Winston-Salem, North Carolina

PROFESSOR BARBARA R. LENTZ
Wake Forest University School of Law; Winston-Salem, North Carolina

JAMES L. LESTER
MacCord Mason, PLLC; Greensboro, North Carolina

DICKSON M. LUPO
Moore & Van Allen, LLP; Charlotte, North Carolina

PROFESSOR MICHAEL S. MIRELES
University of the Pacific, McGeorge School of Law; Sacramento, California

MARY MARGARET OGBURN
Blanco Tackabery & Matamoros, PA; Winston-Salem, North Carolina

PROFESSOR ALAN R. PALMITER
Wake Forest University School of Law; Winston-Salem, North Carolina

MICHAEL E. RAY
Womble Carlyle Sandridge & Rice, PLLC; Winston-Salem, North Carolina

T. ROBERT E. REHM, JR.
Smith, Anderson, Blount, Dorsett, Mitchell, & Jernigan, LLP; Raleigh, North Carolina

PROFESSOR SIMONE A. ROSE
Wake Forest University School of Law; Winston-Salem, North Carolina

J. MARK WILSON
Moore & Van Allen PLLC; Charlotte, North Carolina
INTRODUCTION

Among its many notable accomplishments, the 111th United States Congress likely will be remembered most for its groundbreaking, albeit controversial, passage of comprehensive health care reform legislation in the form of the Patient Protection and Affordable Care Act (the “Affordable Care Act”). Signed into law on March 23, 2010, the Affordable Care Act aims to expand health care coverage for the nearly 50.7 million Americans who are currently without health insurance.2

While the Affordable Care Act may be viewed as the defining moment in the decades-long health care reform movement, significant health care reform in the United States was already underway more than a year earlier. On February 17, 2009, President Barack Obama signed into law the American Recovery and Reinvestment Act of 2009 (the “Recovery Act”).3 Included within the Recovery Act are


provisions known as the Health Information Technology for Economic and Clinical Health Act (the “HITECH Act”), which appropriates billions of dollars in incentives for the adoption and implementation of electronic health record (“EHR”) technology.

In recent years, health policy studies have espoused the many benefits of health information technology (“HIT”), asserting that HIT “is a necessary ingredient for improving the efficiency and quality of health care in the United States.”

EHRs, for example, have the potential to reduce the ordering of duplicate or inappropriate diagnostic tests, avoid adverse drug events, expand the practice of evidence-based medicine, and increase the sharing of health information among a patient’s health care providers. In fact, the George W. Bush administration, as early as 2004, set the goal of developing a nationwide interoperable health information technology infrastructure that would achieve the following objectives:

(a) Ensures that appropriate information to guide medical decisions is available at the time and place of care;
(b) Improves health care quality, reduces medical errors, and advances the delivery of appropriate, evidence-based medical care;
(c) Reduces health care costs resulting from inefficiency, medical errors, inappropriate care, and incomplete information;
(d) Promotes a more effective marketplace, greater competition, and increased choice through the wider availability of accurate information on health care costs, quality, and outcomes;
(e) Improves the coordination of care and information among hospitals, laboratories, physician offices, and other ambulatory care providers through an effective infrastructure for the secure and authorized exchange of health care information; and
(f) Ensures that patients’ individually identifiable health information is secure and protected.

---

5 Id. at div. A, tit. IV, 123 Stat. at 467.
7 See id. at 11–16.
Recognizing the potential benefits of HIT, the HITECH Act includes key provisions to promote the adoption of EHRs by health care providers. The HITECH Act establishes an “EHR Incentive Program,” which includes financial incentives for health care providers that adopt and achieve meaningful use of certified EHR technology. The Centers for Medicare and Medicaid Services (“CMS”) estimate that approximately 624,000 providers will be eligible for incentives under the EHR Incentive Program, resulting in a dramatically increased demand for EHR products and related services. This new, government-subsidized demand for EHR products is designed to, and likely will, motivate HIT vendors and developers to enter, or expand their presence in, the EHR market.

This Article, which explores the ways in which the protections and motivations inherent in United States intellectual property laws, combined with the various incentives offered by the HITECH Act, serve (and will continue to serve) as a driving impetus for the development of an expanded market for HIT, (i) provides in Section I an overview of the legislative and regulatory history of the HITECH Act; (ii) discusses in Section II some of the fundamental principles for securing, maintaining, and protecting intellectual property rights in the United States; (iii) addresses in Section III the impact of the HITECH Act on the HIT market, including the role of intellectual property protections in the development of EHR products; and (iv) analyzes in Section IV several of the legal issues that health care providers face while implementing EHR systems, particularly those arising in negotiating an EHR software license agreement.

I. LEGISLATIVE AND REGULATORY HISTORY

The HITECH Act was passed by the House of Representatives on January 28, 2009, and by the Senate on February 10, 2009. The

10 Id.
11 Medicare and Medicaid Programs; Electronic Health Record Incentive Program, 75 Fed. Reg. 1844, 1974 (proposed Jan. 13, 2010) (to be codified at 45 C.F.R. pts. 412–13, 422, 495) (explaining that this number of providers includes hospitals, physician practices, medical doctors, dentists, podiatrists, optometrists, and chiropractors. CMS further estimates that of the 624,000 health care providers eligible for financial incentives, 94.71% will be physicians and other individual healthcare practitioners, 0.8% will be hospitals, and 4.47% will be hospitals or physicians that participate in a Medicare Advantage organization).
The HITECH Act was then signed into law by President Obama on February 17, 2009.\textsuperscript{14} In supporting the bill, Congress noted that the HITECH Act would “modernize the health care system, save billions of dollars, reduce medical errors, and improve quality.”\textsuperscript{15} In addition, supporters of the bill argued that the HITECH Act would spur innovation in the health care industry, leading to growth and development comparable to other sectors of the American economy.\textsuperscript{16} Perhaps one of the most persuasive arguments in support of the bill was articulated by Senator Sheldon Whitehouse of Rhode Island:

The last few decades have seen enormous innovation in this country -- new communications platforms, the Internet and mobile phones, new sources of energy. This technological revolution is transforming the way we live and work, as the rail system did and the highway system did in decades and centuries past. And as the Federal Government helped build the railways and highways, the bricks and mortar infrastructure of the 20\textsuperscript{th} century, today this recovery bill will support the digital infrastructure of the 21\textsuperscript{st} century. It is a dual benefit: jobs today and a platform for growth tomorrow.

To me, one of the most vital parts of our Nation’s infrastructure in this 21\textsuperscript{st} century will be the development of a national health information network to improve the quality and efficiency of health care, to save money, and to save lives. But today this network is growing at the speed of mud. Health care is frighteningly behind the rest of American industry in its development and implementation of information technology. Why? Because of economics, the strange, bizarre, twisted economics of our health care system that fails to reward doctors and hospitals when they invest in health information infrastructure.

If we can solve the health information network problem, private industry will develop technology to allow doctors to prescribe drugs electronically and help remind you to take them. Technology will help doctors update your vital information in real time and cross-

\textsuperscript{13} S. 1, 111th Cong. (2009), 155 Cong. Rec. D131-02.
reference your health issues with the best illness prevention and treatment strategies. And technology promises decision support programs implementing best medical practices which will help health care providers avoid costly, life-threatening, and completely unnecessary medical errors that now bedevil our health care system.

Look at what private technology and innovation have already done with the Internet—Google, e-Bay, Amazon, YouTube, Facebook. Whose life has not been changed?

Imagine what can happen in health care. Wonderful opportunities beckon, both in the near term, because funding this infrastructure will create jobs in the information technology sector, and in the long term to help us bring down the spiraling health care costs that threaten to engulf our economy.\(^{17}\)

In order to spur innovation and investment in HIT, the HITECH Act created the EHR Incentive Program, which provides not only significant financial incentives for both hospitals and individual health care providers that adopt and achieve “meaningful use” of “certified” EHR technology, but also corresponding penalties for providers that fail to achieve meaningful use.\(^{18}\) The HITECH Act does not expressly define the term “meaningful use,” but instead states that, in order to qualify for incentive payments, health care providers must demonstrate to the satisfaction of the Secretary of the Department of Health and Human Services (“HHS”) that the provider is “using certified EHR technology in a meaningful manner.”\(^{19}\) Similarly, the HITECH Act does not include specifications or criteria for what constitutes “certified” EHR technology; rather, the HITECH Act grants rulemaking authority to HHS to issue such certification criteria.\(^{20}\)

On January 13, 2010, nearly one year after passage of the HITECH Act, HHS promulgated two much-anticipated rules implementing the EHR Incentive Program.\(^{21}\) The first rule, issued by

\(^{17}\) Id. at S1510–11.
\(^{19}\) Id. at § 4102(a) (codified at 42 U.S.C. § 1395ww(n)(3)(A)(i)).
\(^{20}\) See id. at § 13101 (codified at 42 U.S.C. § 300jj(1)).
\(^{21}\) Medicare and Medicaid Programs; Electronic Health Record Incentive Program, 75 Fed. Reg. 1844 (proposed Jan. 13, 2010) (to be codified at 45 C.F.R.
CMS, proposed a definition of the term “meaningful use” (hereinafter, the “Meaningful Use Rule”). The Meaningful Use Rule also provided guidance regarding eligibility requirements for the EHR Incentive Program, along with methods for calculating incentive payments and penalties under the EHR Incentive Program. The second rule, issued by the Office of the National Coordinator for Health Information Technology (“ONC”), set forth the initial set of standards, implementation specifications, and certification criteria for “certified” EHR technology (hereinafter, the “Certification Rule”). On July 28, 2010, after a six-month comment period, CMS and ONC finalized their respective regulations.

The Meaningful Use Rule includes highly detailed criteria for achieving meaningful use of EHR technology. CMS chose to implement the meaningful use criteria in three progressive stages, with Stage 1 beginning in 2011. CMS is expected to establish Stage 2 and Stage 3 criteria in future rulemaking. The Stage 1 criteria focus on electronically capturing health information, communicating such information for care coordination purposes, implementing clinical decision support tools, and reporting clinical quality measures. The Meaningful Use Rule includes twenty-five discrete objectives for physicians, and twenty-four objectives for hospitals, divided into a “core” group and a “menu” set of objectives. The core group includes the following fifteen required objectives for physicians, and fourteen required objectives for hospitals:

---

23 Id. at 1907, 1911.
24 Id. at 1908, 1911–16.
26 Medicare and Medicaid Programs; Electronic Health Record Incentive Program, 75 Fed. Reg. 44,590 (July 28, 2010).
27 Id.
28 Id.
29 Id.
30 42 C.F.R. § 495.6 (2010).
• Use computerized provider order entry for medication orders;
• Generate and transmit prescriptions electronically (physicians only);
• Report ambulatory clinical quality measures to CMS;
• Implement one clinical decision support rule;
• Provide patients with an electronic copy of their health information, upon request;
• Provide patients with an electronic copy of their discharge instructions at time of discharge, upon request (hospitals only);
• Provide clinical summaries for patients for each office visit (physicians only);
• Implement drug-drug and drug-allergy interaction checks;
• Record patient demographics;
• Maintain up-to-date problem list of current and active diagnoses;
• Maintain active medication list;
• Maintain active medication allergy list;
• Record and chart changes in patient vital signs;
• Record smoking status for patients age 13 and older;
• Capability to exchange key clinical information among providers of care and patient-authorized entities electronically; and
• Protect electronic health information through the implementation of appropriate technical capabilities.31

The menu set includes each of the following ten objectives for physicians and hospitals:

• Implement drug-formulary checks;
• Incorporate clinical lab test results as structured data;
• Generate lists of patients by specific conditions;
• Send reminders to patients per patient preference for preventive/follow-up care (physicians only);
• Provide patients with timely electronic access to their health information (physicians only);

31 Id.
- Use certified EHR technology to identify patient-specific education resources;
- Perform medication reconciliation;
- Provide summary of care record for transitions of care and referrals;
- Record advanced directives for patients age 65 and older (hospitals only);
- Capability to submit reportable lab results to public health agencies (hospitals only);
- Capability to submit electronic data to immunization registries; and
- Capability to provide electronic syndromic surveillance data to public health agencies.32

Providers must meet all of the core objectives and five of the menu set objectives to demonstrate meaningful use and thus qualify for financial incentives.33 Physicians that fail to demonstrate meaningful use by 2015 will face reductions in their Medicare reimbursement rates, receiving 99% of the Medicare Physician Fee Schedule rates in 2015, 98% in 2016, and 97% in 2017 and subsequent years,34 while hospitals will face reductions in their annual Medicare Inpatient Prospective Payment System market basket update.35

The Certification Rule sets forth the initial certification criteria for “certified” EHR technology.36 Each certification criterion adopted by ONC is aligned with one of the Stage 1 meaningful use objectives set forth above. The certification criteria establish the required capabilities that certified EHR technology will need to include in order to facilitate achievement of meaningful use by physicians and hospitals under the EHR Incentive Program.37

The Certification Rule allows EHRs to be certified as either “Complete EHRs” or “EHR Modules.”38 A Complete EHR is EHR technology that has been developed to meet all applicable certification

---

32 Id.
33 Id.
34 42 C.F.R. § 495.102(d) (2010).
38 See 45 C.F.R. § 170.102 (2010).
criteria adopted under the Certification Rule.\textsuperscript{39} In contrast, an EHR Module is any component that can meet the requirements of at least one certification criterion under the Certification Rule.\textsuperscript{40} For example, an EHR Module may be designed specifically as a clinical decision support rules engine, or solely to submit public health information to public health authorities.\textsuperscript{41} In order to qualify as “Certified EHR Technology,” the EHR must be either a Complete EHR or a combination of EHR Modules that meets all of the requirements under the Certification Rule.\textsuperscript{42}

In allowing combinations of EHR Modules to qualify as certified EHR technology, the ONC Final Rule aims to spur innovation and creativity in the EHR marketplace by offering health care providers flexibility in their choice of EHR products. According to ONC:

An innovative and competitive HIT marketplace needs to exist much like the marketplace for consumer electronics, where, for the purpose of setting up a home theater, a television, DVD player, and stereo system can be purchased from three different manufacturers, from a single manufacturer, or as a complete system from one manufacturer. To that end, we believe that it will be common in the near future for Certified EHR Technology to be assembled from several replaceable and swappable EHR Modules . . . . As long as each EHR Module has been separately tested and certified[, ] . . . a proper combination of certified EHR Modules could meet the definition of Certified EHR Technology.\textsuperscript{43}

ONC believed that this “modular” approach would “lead to a more competitive marketplace and allow those who adopt HIT to choose from a variety of offerings.”\textsuperscript{44}

\textsuperscript{39} Id.
\textsuperscript{40} Id.
\textsuperscript{42} 45 C.F.R. § 170.102 (2010).
\textsuperscript{44} Id.
II. INTELLECTUAL PROPERTY PROTECTION IN THE UNITED STATES

How could Senator Whitehouse so confidently and enthusiastically predict that private industry in the United States will develop the technological advancements necessary to undergird and spearhead health care reform? Moreover, what convinced CMS and ONC that private industry in the United States would be sufficiently motivated to develop technology compliant with the highly detailed criteria set forth in the Meaningful Use Rule? After all, economic incentives under the EHR Incentive Program are directed to health care providers, not developers of EHR technology.

The authors submit that the answer to these questions implicates much more than just the law of supply and demand—i.e., “create a new market with certain economic incentives and they will come.” On the contrary, at the heart of the confidence, enthusiasm and conviction of the legislators, who drafted, debated, and ultimately enacted the HITECH Act, and the federal agencies that implemented that legislation, is a deeply-rooted belief in the role of intellectual property law in the United States as a force for motivating and rewarding the creative, inventive, and innovative spirit and commitment needed for technology to keep pace with improvements in all aspects of health care.

A. What is “Intellectual Property” and Why Protect It?

“Intellectual property,” reduced to its elemental components, comprises (i) an intangible intellectual act of an individual that produces certain subject matter followed by (ii) a tangible overt act upon which certain property-related rights in such subject matter vest, either in that individual or, in certain circumstances explained more fully below, in another party. This overt act requirement arises

---

45 See supra note 16 at S1510–11 and accompanying text (“[P]rivate industry will develop technology to allow doctors to prescribe drugs electronically and help remind you to take them. Technology will . . . update your vital information in real time and cross-reference your health issues . . . . [a]nd promises decision support programs implementing best medical practices . . . .”) (emphases added)).

46 See supra p. 5 and accompanying notes (“The Meaningful Use Rule includes highly detailed criteria for achieving meaningful use of EHR technology”).

47 See supra p. 2 and note 12.

primarily from the need to provide public notice of the subject matter described in clause (i), which, prior to such notice, resides solely in the mind of the individual. Intellectual property in the United States typically constitutes either copyrightable, patentable, trademark, or trade secret subject matter, all of which are discussed in more detail below.

Intellectual property laws in the United States relating to copyrightable and patentable subject matter are designed with the following general purpose in mind: To protect individuals’ creative and inventive contributions for a limited period of time in an effort to incentivize the development of such contributions and allow those individuals to recoup their economic and other investments in such development with a view to thereafter releasing those contributions to the public for its ongoing use and benefit.\(^{49}\)

Similarly, by and through Congress’ power to regulate interstate commerce,\(^{50}\) it established a statutory framework\(^{51}\) for protecting trademarks, service marks, and trade dress, comprising terms, logos, symbols, and the like, that an individual or entity uses in interstate commerce to distinguish its goods and services from those offered by others.\(^{52}\) Although protection for marks derives in part

\(^{49}\)See U.S. Const. art. I, § 8, cl. 8 (“The Congress shall have 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.”); see also Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 146 (1989).

\(^{50}\)U.S. Const. art. I, § 8, cl. 3 (“The Congress shall have power . . . To regulate Commerce with foreign Nations, and among the several States . . . .”). As a result, a threshold requirement for seeking and securing federal registration of a mark under the Lanham Act is bona fide use (as opposed to token use) of that mark in interstate commerce – i.e., commerce involving at least two (2) states or any state and a foreign nation – in connection with the relevant goods and/or services.

\(^{51}\)See The Lanham Act, 15 U.S.C. §§ 1051–1141 (2006). The Lanham Act and jurisprudence interpreting the various provisions of the Act comprise the primary basis for the federal protection of marks in the United States. In addition, for marks that are not used in interstate commerce, many, if not all, states have enacted statutory provisions not only for registering such marks at the state level but also for bringing state actions against infringers of such registered marks, most often on a deceptive or unfair trade practice basis; see also, e.g., N.C. Gen. Stat. §§ 80–1 to 80–14 (2011).

\(^{52}\)See The Lanham Act, 15 U.S.C. §§ 1051–52, 1127 (providing a system for federal registration of marks (i) that are “in use in commerce” (§ 1051) or (ii) for which the registration applicant has a “bona fide intention to use the mark in commerce” as of the filing date of the registration application (§ 1052), wherein “commerce” is defined as “all commerce which may lawfully be regulated by Congress” (§ 1127)).
from the same conceptual framework as does protection for copyrightable and patentable subject matter, the primary purpose of U.S. trademark law is to prevent any use of a mark in connection with goods or services that (i) is likely to cause confusion, mistake, or deception among consumers in the marketplace as to (1) the source of such goods or services; 53 (2) the affiliation, connection, or association of one individual or entity with another individual or entity; or (3) the origin, sponsorship, or approval of an individual’s or entity’s goods or services by another individual or entity or (ii) is likely to cause dilution of the value of a famous mark. 54

Finally, through a combination of state statutes and interpretive case law, individual states have established protective schemes for subject matter comprising trade secrets. 55

Although United States intellectual property laws provide protection for certain works of authorship, inventions, marks, and trade secrets in an effort to establish an environment that stimulates the development of such intellectual properties, those same laws are designed also to promote the public good by not depriving the public of unfettered access to and use of such properties, if and when it becomes clear, often through some act or omission of the intellectual property owner, that the owner no longer desires, or otherwise is entitled to enjoy, the benefits of such protections.

53 Star Fin. Servs., Inc. v. AASTAR Mortg., 89 F.3d 5, 9 (1st Cir. 1996) (citing DeCosta v. Viacom Int’l, Inc., 981 F.2d 602 (1st Cir. 1992), cert. denied, 509 U.S. 923 (1993)). See The Lanham Act, 15 U.S.C. §§ 1052(d), 1114 (providing (1) that confusingly similar marks cannot be registered and (2) allowing a cause of action for use of a mark “in connection with the sale, offering for sale, distribution, or advertising of any goods or services” in a manner that “is likely to cause confusion, or to cause mistake, or to deceive”).

54 Decosta, 981 F.2d at 605. See The Lanham Act, 15 U.S.C. § 1125(a), (c) (providing causes of action for use of a mark on or in connection with goods or services in a manner that “is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association . . . origin, sponsorship, or approval” or is “likely to cause dilution”).

55 All states in the United States (as well as the District of Columbia) have enacted statutes that protect trade secrets. See David P. Hathaway, Is the North Carolina Trade Secrets Protection Act Itself a Secret, and Is the Act Worth Protecting?, 77 N.C. L. Rev. 2149, 2150 (1999). For example, the State of North Carolina has enacted the North Carolina Trade Secrets Protection Act, codified at N.C. Gen. Stat. §§ 66–152 to 162 (2011), which, among other things, (i) defines “trade secret” as any “business or technical information that . . . derives independent actual or potential commercial value from not being generally known or readily ascertainable . . . and . . . is the subject of efforts that are reasonable under the circumstances to maintain its secrecy,” (ii) provides a civil cause of action for any misappropriation of a trade secret, and (iii) provides legal and injunctive relief to a prevailing trade secret owner. Id. at §§ 66–152(3), 153, 154(a), (b).
Following is a discussion of some of the more important principles of United States intellectual property law directed to establishing and maintaining rights in, and protecting, intellectual property, with a particular focus on various items of EHR technology, such as computer software, scanning hardware, and systems and methods for communicating encrypted information, all of which are key to satisfying Meaningful Use Rule and Certification Rule criteria.  

B. Copyrightable Subject Matter

1. Creation and Fixation

The intellectual act giving rise to copyrightable subject matter is known as “creation,” which comprises a contribution by the creator (i.e., the “author”) of more than a trivial amount of originality resulting in an original work of authorship that is fixed in a copy for the first time. The threshold of originality required to give rise to copyrightable subject matter is somewhat lower than the threshold of novelty and non-obviousness necessary to result in patentable subject matter.  

The overt act giving rise to property-related rights in copyrightable subject matter is fixation of the original work of authorship in a tangible medium of expression that is sufficiently permanent to permit the work to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration (i.e., “fixation”), at which time ownership of copyright rights in that work vest in the author of the work.  

2. Categories of Copyrightable Subject Matter

Examples of original works of authorship subject to copyright protection in the United States include the following:

- literary works (books);
- visual works (paintings);
- audio works (sound recordings);

56 See supra, text accompanying notes 27-42.
57 The U.S. Copyright Act, codified at 17 U.S.C. §§ 101–1332 (2011) (“Copyright Act”), and federal jurisprudence interpreting the Copyright Act, comprise the primary basis for copyright protection in the United States.
60 Id. (noting the definition of “fixed”).
audiovisual works (motion pictures);
architectural works (building designs);
pictorial (photos), graphic (designs, schematics, drawings, flow charts, etc.), and sculptural works (models, prototypes, statues, etc.); and
compilations and derivative works of any of the foregoing original works.61

It is important to note that copyright protection extends only to the creative or expressive elements of the work of authorship and not to any (i) ideas or words; or (ii) concepts, principles, systems, procedures, methods, or other utilitarian or functional aspects explained, illustrated, or embodied in the work,62 all of which may be subject to patent protection. However, copyright protection does extend to (i) the creative or expressive manner in which words, ideas, concepts, or principles are joined together (e.g., in a novel or a flowchart) and (ii) the creative or expressive manner in which data are arranged, structured, or presented (e.g., in a database or data chart).

a. Computer Software Code as a Copyrightable Literary Work

As discussed in more detail in the other sections of this Article, computer software comprises an integral component of the EHR technology required for providers to transition from paper to electronic health records. Computer software source code comprises the set of human-readable instructions developed by a computer programmer to specify actions that the computer must take to achieve the objectives of the program.63 Computer software object code, on the other hand, is source code that has been compiled into a machine-readable format for execution by a computer.64

The Copyright Act provides protection for “original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”65 Works of authorship include . . . literary works . . . .”66 In

61 Id. §§ 102(a), 103.
62 Id. § 102(b).
63 LAWRENCE ROSEN, OPEN SOURCE LICENSING – SOFTWARE FREEDOM AND INTELLECTUAL PROPERTY LAW 2 (2005); H. WARD CLASSEN, A PRACTICAL GUIDE TO SOFTWARE LICENSING FOR LICENSEES AND LICENSORS 34 (3d ed. 2008).
64 CLASSEN, supra note 62, at 34.
66 “Literary works” are “works, other than audiovisual works, expressed in words, numbers, or other verbal or numerical symbols or indicia, regardless of the
addition, the Copyright Act defines a “computer program” as “a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.” 67

Although the Copyright Act does not expressly provide that computer programs constitute original works of authorship susceptible to protection under the Act, it is well-established that computer programs do indeed constitute copyrightable subject matter in the form of literary works. 68 Both the source code and the object code underlying a computer program are protectable under U.S. copyright law. 69

While computer software code is protectable under copyright law as a literary work of authorship, certain business methods embodied within computer software are subject to protection under patent law. 70

3. Exclusive Rights of Copyright

Upon creation and fixation of the copyrighted work, the author of the work has the exclusive right to do and authorize others to do any of the following:

nature of the material objects, such as books, periodicals, manuscripts, phonorecords, film, tapes, disks, or cards, in which they are embodied.” Id. § 101.

67 Id. § 101. The definition of “computer program” was added to the Copyright Act via amendment in 1980. Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1247 (3d Cir. 1983) (citing relevant legislative history).

68 Apple Computer, 714 F.2d at 1247 (citing legislative history of the 1976 Copyright Act, which states that the term “literary works” as used in that statute “includes . . . computer programs”); Williams Elecs., Inc. v. Arctic Int’l, Inc., 685 F.2d 870, 875–77, nn.4–8 (3d Cir. 1982) (holding that “the copyrightability of computer programs is firmly established after the 1980 amendment to the Copyright Act [of 1976]”).

69 Apple Computer, 714 F.2d at 1249 (stating that “a computer program, whether in object code or source code, is a ‘literary work’ and is protected from unauthorized copying, whether in its object or source code version”); ROSEN, supra note 62, at 20 (“The source code that defines a computer program is copyrightable, as is the translated object code that actually executes on the computer.”). The expressive elements of computer databases also constitute copyrightable subject matter. 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 2.04[C][1], at 2–49 & 2–50 (80th rel. 2009) [hereinafter NIMMER ON COPYRIGHT] (citing relevant legislative history, which states that the definition of “literary works” in the Copyright Act “includes computer data bases”).

70 See T. Robert Rehm, Jr., Navigating the Open Source Minefield: What’s a Business to Do?, 10 WAKE FOREST INTELL. PROP. L. J. 289, 291 n.5 (2010). For a detailed discussion of intellectual property rights in computer software and distinctions between open source software and software licensed pursuant to the closed source model, see id. 289–321.
b. Derivative Works and Compilations

Derivative works and compilations are examples of copyrightable subject matter that arise out of pre-existing works of authorship.\textsuperscript{72} A derivative work is based on one or more pre-existing works that are recast, transformed, or adapted in such a way that the resulting work, as a whole, constitutes an original work of authorship.\textsuperscript{73} For example, an original screen play is a derivative work of the novel on which it is based.

A compilation is a collection of pre-existing works that are arranged in such a way that the resulting work of authorship, as a whole, constitutes an original work of authorship.\textsuperscript{74} For example, an original collection of critiques by individual art critics on the paintings of a certain artist is a compilation of those critiques.

Copyright rights in a derivative work or compilation exist separate and distinct from copyright rights in the pre-existing works from which the derivative work or compilation arise. Nonetheless, due to the fundamental and substantial reliance of a derivative work or compilation on such pre-existing work(s), copyright rights in a derivative work or compilation cannot be exercised by the copyright owner thereof without permission of the owner of copyright rights in those pre-existing works.

4. Prosecuting a Copyright Registration Application

In addition to the foregoing exclusive rights of the copyright owner, timely registration of the copyrighted work with the United States Copyright Office (“Copyright Office”), although not necessary, is often advisable, because it provides the copyright owner certain procedural advantages and remedies, which are not otherwise

\textsuperscript{72} Id. § 101.
\textsuperscript{73} Id.
\textsuperscript{74} Id.
available absent such registration, in connection with enforcing such rights against infringers. Prosecuting a copyright registration application is relatively straightforward compared to prosecuting a patent application or an application to register a mark. A copyright registration application includes the following items: (i) a completed Copyright Office cover sheet; (ii) a deposit of the work for which registration is sought; and (ii) the applicable filing fee.\textsuperscript{75}

\textit{a. Benefits of Copyright Registration}

Failure to timely register a copyrighted work may adversely affect a copyright owner’s rights (or related remedies) in connection with that work in at least the following ways:

(i) A copyright owner may not institute an action to enforce its rights in the copyrighted work unless and until that work has been registered at the Copyright Office. U.S. copyright law is somewhat muddled on this point, however, because some courts have held that merely having a copyright registration on file at the U.S. Copyright Office is sufficient to file an infringement action, provided that the U.S. Copyright Office is served a copy of the underlying complaint and any subsequent pleadings.\textsuperscript{76} In any event, copyright owners may seek expedited registration of copyrighted works in the event that the infringed copyrightable subject matter is not registered at the time that infringement commences.\textsuperscript{77}

(ii) In addition to enjoining the accused infringer’s unlawful activities, copyright owners may seek to recover either actual damages or statutory damages from an accused infringer.\textsuperscript{78} To recover actual damages, the copyright owner is required to prove the infringer’s gross revenues arising out of the infringing activity, which in many cases is difficult to do.\textsuperscript{79} On the other hand, in order to recover statutory damages, which are fixed by statute at amounts between (1) $200 per infringed work (for innocent infringement) and (2) $150,000 per infringed work (for willful infringement), the copyright owner is not required to shoulder this difficult burden of proof.\textsuperscript{80}

As an incentive to seek registration of copyrighted works, U.S. copyright law does not permit a copyright owner to seek recovery of statutory damages for (1) infringement of any unpublished work that

\textsuperscript{75} 5 NIMMER ON COPYRIGHT § 21.03.
\textsuperscript{76} See Reed Elsevier, Inc. v. Muchnick, 130 S.C. 1237, 1239 (2010).
\textsuperscript{77} United States Copyright Office, Special Handling (Circular 10.0510).
\textsuperscript{79} 17 U.S.C. § 504(b) (2006); see also 4 NIMMER ON COPYRIGHT § 14.03.
\textsuperscript{80} 17 U.S.C. § 504(c)(2) (2006).
commenced before the effective date of its registration or (2) infringement of any published work that commenced before the effective date of its registration, unless such registration is made within three (3) months after first publication of such work.\textsuperscript{81}

5. \textbf{Notice of Copyright}

The author of a copyrighted work can provide public notice of its ownership of such exclusive rights of copyright in that work by affixing notice, comprising the following elements, to visually perceptible copies of the copyrighted work in a manner reasonably calculated to put a potential infringer on notice of such ownership: (i) copyright symbol ("©" or "Copyright" or "Copr."); (ii) year of first publication of the work; and (iii) name of copyright owner.\textsuperscript{82} Such notice serves to cut off any “innocent infringer” defense that an alleged infringer may assert and to otherwise maximize the scope of damages potentially recoverable by the copyright owner in any suit brought to enforce its rights in the copyrightable subject matter.\textsuperscript{83}

6. \textbf{Transfer of Ownership of Copyright Rights}

A transfer of ownership of copyright rights in a work of authorship may occur either (i) by operation of law or (ii) by written agreement. Oral transfers of copyright ownership are unenforceable and of no force or effect.\textsuperscript{84}

\textit{a. Transfer by Operation of Law}

In general, ownership of copyright rights may be transferred by operation of law in connection with any business consolidation or combination (e.g., a merger) for which applicable law provides for transfer of all right, title, and interest in and to the intangible assets (such as intellectual property rights) of the individual business entities into the consolidated or combined business entity.\textsuperscript{85} In addition, ownership of copyright rights may be transferred by operation of law in connection with the “work made for hire” relationship described below.

\textit{i. Work Made for Hire}

\textsuperscript{82} 8–6 NIMMER ON COPYRIGHT § 19.
\textsuperscript{84} See 3–10 NIMMER ON COPYRIGHT § 10.03 [A][1].
\textsuperscript{85} See 2 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 5:116 (2011).
As discussed above, ownership of copyright rights in a work of authorship initially vests in the author of that work upon fixation of the work in a tangible medium of expression. An exception to this general rule, however, occurs in the context of an employee, who creates a work of authorship within the scope of that employee’s employment. In this case, ownership of the work of authorship and all copyright rights therein vest, by operation of law, in the employee’s employer, not in the employee.

In other words, the law views the employer, not the employee, as the author of the work for copyright purposes. A work of the type described in the immediately preceding paragraph is a “work made for hire,” which U.S. copyright law views differently from works created pursuant to an independent contractor arrangement.

Other than the foregoing exception, in order for ownership rights in a work of authorship, and any copyright rights therein, to vest in any party other than the author of that work, the author must execute a written document assigning all those rights to that other party.

Except in only a few limited cases, copyright rights in such independent contractor works do not transfer by operation of law to the individual or entity that commissions the work – as discussed below, such copyright rights can transfer to the commissioning party only via a written agreement signed by the independent contractor.

b. Transfer by Written Agreement

If ownership of copyright rights does not transfer by operation of law pursuant to the principles described above, such ownership may be transferred only by a written agreement signed by the transferring party. This serves to highlight a common misconception – i.e., that merely paying a third party to develop copyrightable subject matter (except in a work made for hire situation) results in all cases in transfer to the paying party of all right, title, and interest in and to all copyright rights in such subject matter. On the contrary, such payment merely results in transfer to the paying party of title to the tangible

---

86 See supra note 58.
88 See 1–5 NIMMER ON COPYRIGHT § 5.03 [A].
89 Id.
item embodying such copyrightable subject matter, not the underlying copyright rights therein.\textsuperscript{92}

7. Recordation of Transfers of Ownership of Copyright Rights

A less-than-forthright transferor of ownership of copyright rights may attempt to transfer by written agreement the same intellectual property rights twice – \textit{i.e.}, initially to the rightful transferee and later to another transferee. Therefore, in order to protect itself against a later-executed, conflicting transfer of copyright rights to a later transferee that would otherwise be a bona fide purchaser for value without actual notice of the initial transfer, the rightful transferee must, within one month after execution of the underlying transfer document or at any time prior to recordation of a later-executed conflicting transfer, have any such transfer of ownership rights recorded at the Copyright Office along with a copy of the transfer document.\textsuperscript{93} Although acknowledgement (\textit{i.e.}, notarization) of the executed transfer document is not required for its validity, it does constitute prima facie evidence of the execution of the transfer.\textsuperscript{94}

8. Activities That Can Result in Loss of Copyright Rights

Because securing intellectual property rights, including copyright rights, often is a laborious, time-consuming, and expensive undertaking, owners of such rights owe it to themselves to become informed about and remain mindful of the ways in which those rights can be either irretrievably lost or rendered unenforceable for some period of time. In general, any act or omission by or on behalf of an owner of intellectual property rights that would provide a credible basis for a defense against infringement or misappropriation of such rights can lead to a loss of, or inability to enforce, such rights and corresponding remedies available in connection with challenging the infringement or misappropriation of those rights.\textsuperscript{95}

For example, in order to prevail in a copyright infringement action, the copyright owner must prove that (i) it owns valid and enforceable copyright rights in the infringed work and has standing to bring the action, all consistent with applicable legal requirements and (ii) the accused infringer has usurped one or more of the copyright

\textsuperscript{92} See id.


\textsuperscript{94} 17 U.S.C. § 204(b) (2006).

\textsuperscript{95} See 4 NIMMER ON COPYRIGHT §§ 13.06–13.09.
owner’s exclusive rights with respect to that work (most often, the infringer copies and/or distributes copyrighted materials without plaintiff’s authorization). The second element of a copyright infringement action often is difficult to prove by direct evidence of actual copying. As a result, most often the copyright owner must prove unauthorized copying by evidence of (1) access to the copyrighted work and (2) substantial similarity between the copyrighted subject matter in the infringing work and the copyrighted subject matter in the copyrighted work. Therefore, any act or omission by or on behalf of the copyright owner that bars proof of any of the foregoing elements of a copyright infringement action can result in loss of, or inability to enforce, the owner’s copyright rights in the infringed work.

Following are some of the ways in which copyright rights in a work of authorship can be lost or rendered temporarily unenforceable:

a. First Sale

The first authorized sale of, or other disposition that passes title in or to, a tangible item embodying copyrighted subject matter (e.g., the sale of a compact disc on which a copyrighted computer program is recorded) exhausts the copyright owner’s exclusive right to distribute, or otherwise control distribution of, that item. It is important to note, however, the following limitations on any exhaustion of copyright rights in this situation: (i) title passes only as to the tangible item and not to the copyrighted subject matter or underlying copyright rights embodied therein and (ii) the following exclusive rights of the owner in that copyrighted subject matter remain intact and in full force and effect: (1) all the exclusive rights granted under U.S. copyright law (other than the distribution right) with respect to that item and (2) all such exclusive rights (including the distribution right) in connection with all other such items that have not been sold or otherwise disposed of in the manner described above. While the first sale of a tangible item embodying a copyrighted work is not, in and of itself, a bad thing – in fact, it is a routine part of many commercial transactions – it is important to note that, after such a sale,
certain exclusive rights of copyright as to the sold item, as described above, are no longer available to the owner of that copyrighted work.¹⁰⁰

b. Failure to Provide Notice of Copyright

In addition to the possible forfeiture of copyright rights discussed in Section II.B.8.(c) below, failure of the copyright owner to affix proper notice of copyright to the copyrighted work opens the door for assertion of an innocent infringer defense by an accused infringer of copyright rights in the work.¹⁰¹ This defense, which in and of itself, generally will not shield an accused infringer from liability, but may impact the amount of statutory damages available to the copyright owner, is not available if proper copyright notice appears on the copy of the infringed work accessed by the infringer. In addition, the defense is not available to the extent that the copyright owner can demonstrate that the infringer otherwise had actual knowledge of the owner’s copyright rights—a showing that is often difficult to make.¹⁰² Therefore, it is important to require, especially in agreements in which rights in a copyrighted work are licensed to another party, that all copies of a copyrighted work clearly and prominently display the proper notice of copyright.

c. Abandonment

A copyright owner may abandon its copyright rights in a work by any overt act or pattern of behavior that indicates the copyright owner’s intention to permanently disclaim such copyright rights.¹⁰³ For example, repeatedly permitting publication of the copyrighted work (or affixation of notice of copyright) in someone else’s name could result in abandonment of copyright rights in the work. Forfeiture of copyright rights, which is another example of abandonment, arises out of prolonged or repeated failure to use proper notice of copyright on a copyrighted work.¹⁰⁴ Similarly, a copyright owner’s repeated failure to enforce its rights in the copyrighted work against known infringements of that work can result in a loss of copyright rights in the work through acquiescence.¹⁰⁵

¹⁰⁰ Nadan, supra note 98, at 628.
¹⁰¹ See 2–7 NIMMER ON COPYRIGHT § 7.14(B).
¹⁰² See id. § 7.14(B)(1)(b)(iii) (citing 17 U.S.C. § 405(b)).
¹⁰³ See 4–13 id. § 13.06 (describing “abandonment”).
¹⁰⁴ See id. (distinguishing between “abandonment” and “forfeiture”).
d. Implied License

Owners of copyright rights may elect to share such rights with other individuals or entities through written license agreements designed to expressly set out the scope of such licensed rights and any related restrictions and prohibitions. However, in some cases, either improvidently drafted license terms or certain conduct by the licensor and/or licensee may serve as a basis for an implied license in certain copyright rights that was not intended by the licensor.

For example, an express license under certain copyright rights may be useless to the licensee unless rights under certain other copyright rights are also granted. In such cases, the licensee may successfully assert that an implied license has been created in those other copyright rights. To avoid such an outcome, care should be taken to draft license terms that not only are appropriately tailored to the scope of copyright rights that the licensor intends to license but also expressly state all applicable restrictions and disclaim all licenses under those copyright rights other than those expressly stated in the relevant agreement.

Unlike assignments of or exclusive licenses under copyright rights, non-exclusive copyright licenses do not necessarily need to be in writing in order to be enforceable under federal copyright law. Therefore, oral statements or certain conduct evidencing an understanding by and between a licensor and its non-exclusive licensee as to the licensee’s rights in copyrightable subject matter may give rise to a non-exclusive implied license in such subject matter that was not intended by the licensor. As a result, licensors should be careful that their comments and actions do not provide a supportable basis for such an implied license.

e. Laches

Laches in a copyright context typically arises due to an inexcusable and unreasonable delay by the copyright owner in enforcing its copyright rights against a known infringer of such rights. Such conduct may render the copyright rights

---

106 Id. § 10.03 [A][1] (2010).
107 Id. § [A][7].
108 Id. § [A][2].
109 Id.
110 Id. § [A][6].
111 Id. § [A][5].
112 3–12 id. § 12.06(B).
unenforceable.\textsuperscript{113} The unenforceability of copyright rights due to laches highlights an important point with respect to all intellectual property rights – \textit{i.e.}, once intellectual property rights are created, in order to maintain the ongoing viability of such rights, the owner must remain vigilant against violations of such rights and promptly take affirmative action to challenge such violations.\textsuperscript{114}

\textit{f. Copyright Misuse}

If a copyright owner exploits its exclusive rights of copyright beyond the scope of such rights granted by law to the copyright owner with an overall anticompetitive effect, the owner may be guilty of copyright misuse.\textsuperscript{115} For any infringement action brought by a copyright owner guilty of such misuse in which the misuse directly relates to the copyright rights at issue in such action, the alleged infringer may have grounds for asserting a defense based on copyright misuse.\textsuperscript{116} The underlying copyright rights in such situations are unenforceable until all the misuse and its related consequences are purged.\textsuperscript{117}

\textit{g. Fair Use}

Unlike the foregoing activities that may result in loss of copyright rights, all of which derive primarily from some act or omission by or on behalf of the copyright owner, “fair use” of copyrighted subject matter is a restriction on copyright rights that has evolved from a judicial attempt to forgo strict application of the U.S. Copyright Act in certain situations where it would be contrary to the fundamental purpose of the copyright laws to do so.\textsuperscript{118} Such situations may include the use of copyrighted subject matter for purposes of criticism, comment, news reporting, teaching, scholarship, and research.\textsuperscript{119}

In determining whether use of copyrighted subject matter constitutes fair use, the following factors, among others, are typically taken into account: (i) the purpose and character of the use, including whether such use is of a commercial nature or is for non-profit educational purposes; (ii) the nature of the copyrighted work; (iii) the

\textsuperscript{113} Id. § 12.06(A).
\textsuperscript{114} Id. § 12.06(B)(4).
\textsuperscript{115} 4–13 id. § 13.09(A)(2).
\textsuperscript{116} Id.
\textsuperscript{117} Id.
\textsuperscript{118} Harper & Row Publ’ers, Inc. v. Nation Enters., 471 U.S. 539, 549 n.3 (1985) (quoting Iowa State Univ. Research Found., Inc. v. Am. Broad., 621 F.2d 57, 60 (2d Cir. 1980)).
amount and substantiality of the portion of the copyrighted work used relative to the copyrighted work as a whole; and (iv) the effect of the use of the copyrighted work on the potential market for or value of the copyrighted work. While none of these factors alone is dispositive of the fair use analysis in any given case, one or more of the factors may be given additional weight depending on the particular circumstances.

C. Patentable Subject Matter

1. Conception and Disclosure

The intellectual act giving rise to patentable subject matter is known as “conception,” which comprises the mental formulation by an individual (i.e., the “inventor”) of a novel, non-obvious, and useful invention (e.g., a product, process, method, system, etc.) in sufficient detail to allow for the requisite disclosure described in the immediately following paragraph.

The overt act giving rise to property-related rights in a patent context is “disclosure” of the invention in sufficient detail, and in a manner that permits appropriate corroboration, so as to enable one of ordinary skill in the pertinent art to reduce the invention to practice either (i) actually, by constructing a physical embodiment of the invention that can be demonstrated to work for its intended purpose or (ii) constructively, by filing a patent application that claims such invention and complies with the other legal requirements for such an application.

Once an invention is conceived, the inventor must exercise reasonable diligence in reducing the invention to practice to ensure that any patent-related rights in that invention vest in the inventor.

In contrast with copyrightable subject matter for which the vesting of substantive rights is a one-step process that occurs upon

---

120 Id.; see 4 NIMMER ON COPYRIGHT § 13.05[A][5][a].
121 Id.
124 3A CHISUM ON PATENTS §§ 10.04–10.06; BLACK’S LAW DICTIONARY 532 (9th ed. 2009).
125 See 3A CHISUM ON PATENTS §10.03.
fixation of the work in a tangible medium of expression, vesting of substantive patent rights involves a two-step process as follows:

First, conception and disclosure in the manner just described vest in the inventor (or its transferee) nothing more than the right to pursue patent protection for the invention in the United States.\textsuperscript{126} That right, however, is subject to the rights of any other individual, who (1) can demonstrate prior conception of the invention or (2) first reduces the invention to practice, but only to the extent that the inventor who first conceived the invention fails to comply with the reasonably diligent reduction to practice described above, all in accordance with certain statutory requirements and rules and regulations.\textsuperscript{127}

Second, once the inventor (or its transferee) exercises its right to file a patent application claiming the applicable invention, the claimed invention must comply with the requirements of U.S. patent law, which are discussed in more detail below, before a patent will issue for that invention.\textsuperscript{128} If and when such a patent issues, the exclusionary rights described below vest in the inventor (or its transferee) upon issuance of that patent.\textsuperscript{129}

2. Types of Patentable Subject Matter

Patentable subject matter involved in technology commercialization most often is protectable under what are known as “utility” patents (as opposed to other types of patents dealing with certain ornamental designs (\textit{i.e.}, “design” patents) and new and distinct varieties of plants (\textit{i.e.}, “plant” patents)). Inventions subject to utility patent protection in the United States include the following:

- **Products:**
  - apparatus (electronic scanning device)
  - composition of matter (chemical compound)
  - product of nature (genetically engineered material); and
  - manufacture (any product-related subject matter not included in the foregoing categories)

- **Processes:**
  - methods/procedures (encryption of electronic communications) and

---

\textsuperscript{126} See \textit{id.}

\textsuperscript{127} See \textit{id.}


Utility patent protection extends only to the utilitarian or functional aspects of a product or process and not to any creative or expressive aspects of such products or processes, all of which may be subject to copyright protection as discussed above.

3. Exclusionary Rights Arising From an Issued Patent

Upon conception and disclosure of the relevant invention in the manner described above and issuance by the United States Patent and Trademark Office ("USPTO") of a patent that claims that invention, the inventor of the claimed invention has the right to exclude others (i) from making, using, offering for sale, and selling the patented invention throughout the United States and from importing the patented invention into the United States and (ii) for patented inventions comprising a process, to exclude others from importing into the United States any products made by that process.  

It is important to note that rights granted under a patent are rights of exclusion rather than rights to affirmatively engage in any of the activities that are the subject of such exclusionary rights. Said another way, a patent covering the invention claimed therein merely gives the patent holder (i.e., patentee) the right to exclude all others from exercising the rights described in clauses (i) and (ii) of the immediately preceding paragraph with respect to that invention; it does not grant the patentee the affirmative right to engage in any of those activities with respect to the invention. Therefore, a license under patent rights is more appropriately characterized as a patentee’s “covenant not to sue” its licensee for exercising any of the rights that the patent grant permits the patentee to exclude others from exercising.

For example, in the situation where a patented invention, which comprises claim elements A, B, C, and D, is an improvement of an earlier patented invention, which comprises claim elements A, B, and C, the patentee’s rights under the earlier patent to exclude the practice of any invention comprising the elements A, B, and C would “block” the patentee of the later patent from affirmatively exercising any of the exclusionary rights under that later patent with respect to.

---

130 1 CHISUM ON PATENTS §§ 1.02–03.
132 5 CHISUM ON PATENTS § 16.02(1).
133 Id. § 16.02(1) n.1.
the invention comprising claim elements A, B, C, and D, but only to
the extent that any such exercise of rights requires the practice of the
earlier patented elements A, B, and C.
This “blocking” situation does not arise very often, primarily
because the patentee of the earlier patent often is also the patentee of
the later patent. This is so because improvements to earlier patented
inventions are, in most cases, set out in the disclosure of the earlier
filed application, which reserves to the patentee of the earlier patent
the right to file subsequent patent applications (generally called
“continuation” applications) claiming such improvements.134 In
situations where “blocking” poses problems, the patentee of the later
filed patent can either secure a license from the patentee of the earlier
patent or substitute for one or more of elements A, B, and C (in the
example above) certain non-equivalent element(s) so that there would
be no violation of any of the exclusionary rights of the patentee of the
earlier patent.

4. Prosecuting a Patent Application

a. Non-Provisional Patent Application Requirements

Utility patent applications in the United States are of two (2)
basic types: (i) non-provisional and (ii) provisional. A non-
provisional patent application, which is subject to substantive review
by the USPTO, typically includes the following items, at a minimum:
(1) one or more claims; (2) specification; (3) inventor’s oath or
declaration; and (4) filing fee.135 In addition, a non-provisional
application may include drawings, if required to describe the claimed
invention, and information disclosure statements, which are discussed
in more detail below. Finally, for most, if not all, non-provisional
applications filed in an employment context, the application includes
an assignment of the patent application and inventions claimed therein
from the employee-inventor to the employer-assignee.

If, in connection with preparing the patent application, the
inventor, its assignee, or their patent attorney uncovers any patents,
documents, references, or other information that may be material to
the patentability of any of the subject matter claimed in the
application, those materials should be identified in an information
disclosure statement and copies thereof provided as part of the
application.136 In addition, if the subject matter claimed in the non-
provisional application is properly supported by the disclosure (i.e.,

134 4A id. § 13.01.
135 4 id. § 11.02.
136 Id. § 11.03(4)(c)(ii).
satisfies the Disclosure Requirements discussed below) set forth in any earlier-filed patent application, that subject matter can claim priority back to the earliest filed of such applications in an effort to overcome any Prior Art (defined below) that might undermine the patentability of that subject matter. 137

For example, a non-provisional application can rely for priority on the provisional application from which it derives so long as the provisional application meets all the statutory requirements for such an application and the non-provisional application is filed no later than twelve (12) months after the filing date of the corresponding provisional application. Although such a claim of priority may help to overcome troublesome Prior Art, it is important to note that, depending on the filing date of a non-provisional application that claims such priority, the term of any patent issuing from that non-provisional application possibly would be deemed to commence on the filing date of the earliest-filed application from which priority is claimed rather than on the filing date of the non-provisional application. 138

The claims define the scope of the patented invention. For a patent application to issue into a patent, the invention claimed in that application must be novel and non-obvious. 139 In order to be “novel,” at least one element of the claimed invention must be newly conceived by the inventor – in other words, all elements of the claimed invention cannot be disclosed within a single reference in the Prior Art. 140 The “Prior Art” essentially comprises all patents, documents, references, and other information that relate to the invention for which patent protection is sought and are available to or accessible by the inventor on the date on which conception of that invention commences. 141

In order to be “non-obvious,” all elements of the claimed invention cannot be disclosed within multiple references in the Prior Art for which it would have been obvious to a person of ordinary skill in the art of the claimed invention, whether through any suggestion, motivation, or teaching included in the Prior Art or through the ordinary skill of such a person or common sense, to combine the teachings of those references to bring about the claimed invention. 142

137 Id. § 11.03(2)(c)(v).
138 Id. § 11.03(2)(b)(vi)(A).
140 1 CHISUM ON PATENTS § 3.01.
141 Id.
142 Id.
The specification and drawings included with a non-provisional application, which, collectively, comprise the “disclosure” of the application, must set forth (1) a clear, reasonably detailed, and accurate written description of the claimed invention (the “Written Description Requirement”); (2) sufficient to enable a person of ordinary skill in the art to which that invention pertains to make and use the claimed invention (the “Enablement Requirement”); and (3) the best mode for carrying out the claimed invention (the “Best Mode Requirement”) (the foregoing requirements in (1)-(3), collectively, the “Disclosure Requirements”). A patent cannot issue from a patent application unless and until the USPTO determines that the disclosure satisfies the Disclosure Requirements.

Patent infringement analysis is directed to the invention as claimed in the infringed patent and is informed by, among other things, the patent’s disclosure and its “prosecution history,” which is discussed in more detail in Section II.C.4.(c) below.

b. Provisional Patent Application Requirements

A provisional patent application, which is not subject to substantive review by the USPTO, is an abbreviated version of a non-provisional patent application in that it need not include any claims or an inventor’s oath or declaration and cannot include any information disclosure statements. However, a provisional application must include a completed USPTO cover sheet that clearly identifies the application as provisional.

A provisional patent application is similar in effect to an intent-to-use registration application for a mark, which is discussed in more detail in Section II.D.4.(b) below, in that a provisional application allows an applicant to establish an earlier priority date for purposes of determining patentability of any invention that is ultimately claimed in a later filed non-provisional application that relies for priority on that provisional application. However, in order to claim such priority, the disclosure of the provisional application must comply with the Disclosure Requirements and the corresponding non-provisional application must be filed no later than twelve (12) months after the filing date of the provisional application.

---

143 id. § 7.01.
144 id. § 11.02(1)(g)(i).
145 Id.
146 Id. § 11.02(1)(g)(iii).
c. USPTO Examination

After examining a non-provisional patent application, the USPTO typically issues an office action directed primarily at identifying issues arising from (i) any failure of the disclosure of the application to comply with the Disclosure Requirements and/or (ii) any Prior Art that renders the claims of the application unpatentable. Additional office actions may be required to address other issues as they arise. USPTO office actions in connection with patent prosecution generally result in a narrowing of the claim scope initially sought by the applicant in order to overcome any Prior Art asserted by the USPTO examiner. These office actions, the applicant’s responses thereto, and any other correspondence or other information exchanged by the USPTO examiner and the applicant in connection with prosecuting the patent, which, collectively, are known as the “prosecution history” of the application, ultimately result in (1) issuance of a patent having claim scope deemed acceptable by the USPTO; or (2) a final ruling by the USPTO that the claims of the application are unpatentable, whereupon the applicant either (a) appeals the adverse ruling to a federal court or a higher authority within the USPTO or (b) abandons the application.

5. Notice of Patent

A patentee can provide public notice of the exclusionary rights granted under a patent by affixing notice comprising the following elements to the patented article or, when that is not possible, affixing a label bearing such notice to the patented article or its packaging: (i) the word “patent” or abbreviation “pat.” together with (ii) the number of the patent. Providing such notice, which is known as “marking,” serves to maximize the scope of damages potentially recoverable by the patent owner in any suit brought to enforce its rights in the patented subject matter.

6. Transfer of Ownership of Patent Rights

As with transfers of ownership of copyright rights, a transfer of ownership of patent rights may occur either (i) by operation of law or
(ii) by written agreement. Oral transfers of ownership of patent rights are unenforceable and of no force or effect.

a. Transfer by Operation of Law

Ownership of patent rights may be transferred by operation of law in connection with any business consolidation or combination (e.g., a merger) for which applicable law provides for transfer of all right, title, and interest in and to the intangible assets (such as intellectual property rights) of the individual business entities into the consolidated or combined business entity. In addition, ownership of patent rights may be transferred by operation of law in connection with the relationship described below.

i. Hired-to-Invent Employment

As discussed above, rights in patentable subject matter initially vest in the inventor of such subject matter once the requisite disclosure is made. An exception to this general rule, however, occurs in the context of an employee, who is hired for the express purpose of inventing the process, method, product, etc. that the employee conceives and that ultimately becomes a patented invention. In order to be enforceable against the employee-inventor, the terms and conditions of any such hired-to-invent arrangement must be evidenced by a written agreement between the employer and employee or, alternatively, by an implied-in-fact contract arising out of and indicating a tacit understanding between those parties followed by conduct in furtherance of and in accordance with that understanding. Whether such an implied-in-fact contract exists is determined by the contract law of the respective state in each case.

In the hired-to-invent arrangement described above, ownership of the resulting subject matter and all patent rights therein vest, by operation of law, in the inventor’s employer, not in the inventor. In other words, the law views the employer, not the employee, as the inventor of the patentable subject matter for patent protection.

154 8 CHISUM ON PATENTS § 22.01.
155 8 id. § 22.03(2).
156 3 id. § 7.01.
157 8 id. § 22.03(2).
159 8 CHISUM ON PATENTS § 22.03(5).
purposes.\textsuperscript{160} Other than the foregoing exception, in order for ownership rights in patentable subject matter and any patent rights therein to vest in any party other than the inventor of that subject matter, the inventor must execute a written document transferring ownership of all those rights to that other party.\textsuperscript{161}

Even in employment contexts that do not rise to the level of the hired-to-invent arrangement described above, certain license rights in patentable subject matter developed by an employee in connection with his or her employment may pass by operation of law to the respective employer.\textsuperscript{162} Such license rights, known as “shop rights,” arise out of principles of equity and fairness and are designed to recognize the contributions that an employer makes in connection with development of such patentable subject matter.\textsuperscript{163}

Typically, shop rights in patentable subject matter permit the employer to use such subject matter on a non-exclusive basis in connection with the employer’s business without fear of reprisal by the employee. An analysis of whether shop rights arise from inventive activity in connection with an employment relationship typically takes account of the full nature of the parties’ relationship, including the following factors: (i) the extent to which the employee utilized the employer’s resources (time, materials, wages, workplace, etc.) in connection with such development; (ii) the extent to which the employee induced or acquiesced in the employer’s use of that subject matter; and (iii) the extent to which the employee assisted in any such use.\textsuperscript{164}

Similar to the case of “shop rights” arising out of inventive activity in an employment context, certain license rights in patentable subject matter can pass by operation of law, such as in cases where inventive activity is funded by the U.S. Government.\textsuperscript{165} However, in virtually every case in which that occurs, the inventor is required to enter into written agreements with the U.S. Government that incorporate certain governmental regulations, policies, and procedures.

\textsuperscript{160} Banks v. Unisys Corp., 228 F.3d 1357, 1359 (Fed. Cir. 2000).
\textsuperscript{162} See McElmurry v. Ark. Power & Light Co., 995 F.2d 1576, 1580 (Fed. Cir. 1993); 8 CHISUM ON PATENTS § 22.03.
\textsuperscript{163} See McElmurry, 995 F.2d at 1580; 8 CHISUM ON PATENTS § 22.03(a).
providing such license rights to the U.S. Government. Such license rights, known as “march-in rights,” are designed to recognize the contributions made by the U.S. Government in connection with developing the patentable subject matter and to give the U.S. Government the right to “march in” to develop and commercialize patentable technology to which it has financially contributed in the event that the inventor is unable or unwilling to do so. In addition, the U.S. Government receives a “non-exclusive, non-transferable, irrevocable, paid-up license to practice or have practiced each subjective invention . . . by or on behalf” of the U.S. Government.

b. Transfer by Written Agreement

If ownership of patent rights does not transfer by operation of law pursuant to the principles described above, such rights may be transferred only by a written agreement signed by the party transferring such rights. This serves to highlight a common misconception – i.e., that merely paying a third party to develop patentable subject matter (except in a hired-to-invent situation) results in all cases in transfer to the paying party of all right, title, and interest in and to all patent rights in such subject matter. On the contrary, such payment merely results in transfer to the paying party of title to the tangible item embodying such patentable subject matter, not the underlying patent rights therein.

---


169 35 U.S.C. § 261 (2006). The patentee is not necessarily required to execute the assignment in every case, so long as someone authorized by applicable law to execute on behalf of the patentee does so. See, e.g., Cookson v. Louis Marx & Co., 23 F. Supp. 615, 617 (S.D.N.Y. 1938) (“On creditor’s bill a court of equity may appoint a trustee to make an assignment of a debtor’s patent right in case the debtor himself does not make the required assignment, and an assignment executed by the trustee will pass title to a purchaser.” (citing Ager v. Murray, 105 U.S. 126 (1881)).

170 See generally 8 CHISUM ON PATENTS § 22.03(2). An assignment provision often is required to be expressly stated in present terms rather than a future promise of assignment. Compare Speedplay, Inc. v. Bebop, Inc., 211 F.3d 1245, 1253 (Fed. Cir. 2000) (holding an assignment provision that “hereby conveys, transfers and assigns” as a present assignment), with Arachnid, Inc. v. Merit Indus., Inc., 939 F.2d 1574 (Fed. Cir. 1991) (holding an assignment provision agreeing that the invention “will be assigned” as not a present assignment).

171 8 CHISUM ON PATENTS § 22.01 (“[A]bsent some effective transfer or other obligation to assign patent rights, the individual inventor owns the right to apply for and obtain a patent.”).
7. **Recordation of Transfers of Ownership of Patent Rights**

In order to protect itself against a later-executed, conflicting transfer of patent rights to a later transferee that would otherwise be a bona fide purchaser for value without actual notice of the initial transfer, a rightful transferee of ownership in patent rights must, within three (3) months after execution of the underlying transfer document or prior to the date of the later transfer, have any such transfer of ownership recorded at the USPTO along with a copy of the transfer document.\footnote{35 U.S.C. § 261 (2006).} Although acknowledgement (i.e., notarization) of the executed transfer document is not required for its validity, it does constitute prima facie evidence of the execution of the transfer.\footnote{Id.}

8. **Activities That Can Result in Loss of Patent Rights**

In order to prevail in a patent infringement action, the patent owner must prove that (i) it owns valid and enforceable rights in the patented invention, consistent with applicable legal requirements,\footnote{Patent infringement suits must satisfy the Supreme Court’s three-part framework in order to form a justiciable controversy under Article III of the Constitution, including standing, ripeness, and lack of mootness. Caraco Pharm. Labs., Ltd. v. Forest Labs., 527 F.3d 1278, 1291 (Fed. Cir. 2008) (citing Lujan v. Defenders of Wildlife, 504 U.S. 555, 560 (1992) (standing); Abbott Labs. v. Gardner, 387 U.S. 136, 148 (1967) (ripeness); U.S. Parole Comm’n v. Geraghty, 445 U.S. 388, 397 (1980) (mootness).} and (ii) the accused infringer has usurped one or more of the patent owner’s exclusionary rights with respect to that invention.\footnote{4 MILLS, III, ET AL., supra note 151, § 20:3.} With regard to the second element of proof, the patent owner must prove that each and every element recited in at least one of the claims of the infringed patent is found in the infringing device, method, or process.\footnote{ZMI Corp. v. Cardiac Resuscitator Corp., 844 F.2d 1576, 1582 (Fed. Cir. 1988).} Therefore, any act or omission by or on behalf of the patent owner that bars proof of either or both of the foregoing elements of a patent infringement action can result in loss of, or inability to enforce, the owner’s rights in the infringed patent.\footnote{5B CHISUM ON PATENTS § 18.06(1)(a).}

Following are some of the ways in which patent rights can be lost or rendered temporarily unenforceable:
a. Patent Exhaustion

Similar to the “first sale” restriction on a copyright owner’s exclusive right to distribute copyrighted subject matter, an unconditional, authorized sale of, or other disposition that passes title in or to, a tangible item embodying a patented invention exhausts the patent holder’s right to exclude (or otherwise control) use or further sale or disposition of that tangible item. However, exhaustion of patent rights in this situation is subject to the same limitations described above in Section II.B.8.(a) with respect to loss of copyright rights. In addition, any conditions placed on the sale or other disposition of the item will pass on to the transferee.

b. Failure to Mark

Failure to provide public notice of patent rights in the manner described in the “Notice of Patent” section above will bar the patent holder from recovering any damages in a patent infringement action initiated to enforce such rights, except to the extent that the infringer was notified of such patent rights and continued to infringe thereafter. Any damages recovery pursuant to the foregoing exception will be limited only to infringements occurring after such notification is given.

c. Failure to Timely File a Patent Application

An inventor is statutorily barred from patenting any invention for which an embodiment thereof is on sale or in public use for more than one (1) year prior to filing a patent application claiming that invention. The “on sale” bar includes not only sales of, but also offers to sell, an embodiment of the applicable invention. The “public use” bar includes any uses of the applicable invention by a person other than the inventor, who is under no limitation, restriction, or obligations of secrecy to the inventor. It is important to note that “public use” of an embodiment of an invention can occur in a non-public setting so long as the requirements of the immediately preceding sentence are satisfied. Both the “on sale” and “public

178 5 id. § 16.03(2)(a).
179 See supra text accompanying note 98.
180 5 CHISUM ON PATENTS § 16.03(2).
181 7 CHISUM ON PATENTS § 20.03(7)(c).
182 Id.
184 In re Brigance, 792 F.2d 1103, 1107 (Fed. Cir. 1986).
use” bars may be subject to an “experimental use” exception that may apply in certain limited circumstances in which the subject invention is used exclusively for experimental purposes directed to further development and refinement of that invention.187

d. Failure to Satisfy Statutory Requirements for Obtaining a Patent

As discussed in the Section II.C.4. above, (i) the disclosure included in a patent application must comply with the Disclosure Requirements and (ii) the invention claimed in that application must be novel and non-obvious. Otherwise, the USPTO will not grant a patent on the application. It is important to note that issuance of a patent does not prevent the validity of that patent from later being challenged by an accused infringer or other third parties on lack of novelty or obviousness grounds or for failure to meet any of the Disclosure Requirements.188 In reviewing the merits of any such challenge, a court will give some degree of deference to the USPTO’s determination (during prosecution of the application issuing into that patent) that all the statutory requirements for patentability were indeed satisfied.189

e. Abandonment

Abandonment of rights in connection with patentable subject matter can occur in at least the following ways:

First, an inventor who conceives and reduces to practice an invention may abandon that invention in the event that, thereafter, he indicates an intent to so abandon by failing to diligently commercialize, or file a patent application claiming, that invention.190 Such abandonment constitutes a loss of the inventor’s proprietary rights in the invention, and such rights may accrue in another party that files a patent application on the same invention during the inventor’s dilatory period.191 Whether such a loss of rights occurs typically depends on evidence of the inventor’s intent to abandon, which may be inferred from the length of the inventor’s delay and the

187 See T.P. Lab. v. Prof’l Positioners, Inc., 724 F.2d 965, 971 (Fed. Cir.), cert. denied, 469 U.S. 826 (1984) (holding experimental use is a negation of the public use bar, not an exception). However, since TP Laboratories the Federal Circuit has continued to refer to experimental use as an “exception.” See In re Brigance, 792 F.2d at 1109.
189 See 1 CHISUM ON PATENTS § 5.06[2][b][i][C].
190 See id. § 6.03.
191 Id.
extent and nature of any activities undertaken by the inventor during that delay period with respect to the invention at issue.192

Second, a patent application may go abandoned (i.e., expire) for applicant’s failure to prosecute the application in accordance with rules and regulations established by the USPTO.

Finally, a patent may go abandoned for the patentee’s failure to pay certain fees required to maintain the patent in effect.

f. Fraud and Inequitable Conduct Before the USPTO

Patent applicants and their patent counsel have a duty to prosecute patent applications before the USPTO with candor, good faith, and honesty. Therefore, a patent may be invalidated or rendered unenforceable due to any breach of this duty that constitutes fraud or inequitable conduct before the USPTO in connection with prosecuting the application that issues into that patent.193 Inequitable conduct includes any affirmative misrepresentation as to, failure to disclose, or submission of false information that is material to patentability with the intent to deceive or mislead the patent examiner into issuing the patent.194 Inequitable conduct constitutes fraud in situations where, but for such inequitable conduct, the applicable patent would not have issued. The consequences of inequitable conduct, which render a patent unenforceable, and fraud, which invalidates a patent, may extend to other patents that are related to the patent at issue.195 It is also important to note that enforcement of a patent known by the patentee to be fraudulently procured may give rise to antitrust liability where all the other elements of an antitrust violation can be proved.196

g. Patent Misuse

If a patentee exploits its patent rights beyond the scope of the exclusionary rights granted by law to the patentee with an overall anticompetitive effect, the patentee may be guilty of patent misuse.197 For any infringement action brought by a patentee guilty of such misuse in which the misuse directly relates to the patent rights at issue in such action, the alleged infringer may have grounds for asserting a defense based on patent misuse.198 When patent misuse arises, it is often in connection with licensing arrangements, such as covenants not to deal, discriminatory royalty rates, territorial and field of use

192 See id.
193 6 id. § 19.03.
195 Id § 19.03[6].
196 Id.
197 See id. § 19.04.
198 Id.
restrictions, concerted refusals to deal, and tying of licenses under patented products to licenses under non-patented products, all of which attempt to expand the scope of the licensed patent rights beyond its legally permissible contours. The underlying patent rights in such situations are unenforceable until all the misuse and its related consequences are purged.

h. Prosecution History Estoppel

During prosecution of a patent application, the applicant may be required to narrow the scope of (i.e., reduce the amount of subject matter covered by) one or more of the claims in the application in order for those claims to be patentable – i.e., to not be anticipated or rendered obvious by the Prior Art. The surrendered claim scope then becomes part of the prosecution history of the application. If a patent issues on the narrowed claim(s), the patentee is precluded from trying to resurrect and assert the surrendered claim scope in any action subsequently brought to enforce the patentee’s rights in the patent. In this situation, the patentee is said to be “estopped” from asserting the surrendered claim scope according to the doctrine of “prosecution history estoppel” or “file wrapper estoppel.”

i. Other Activities to Avoid

The discussion above in Sections II.B.(d)-(e) with respect to loss of copyright rights under theories of implied license and laches applies with equal force and effect to rights in patentable subject matter.

D. Trademarks and Service Marks

1. “Use” of -- the Keystone for Acquiring Rights in a Trademark or a Service Mark

The intellectual act in a trademark/service mark context is an individual or entity’s “formation of the requisite intent” to use a term, logo, symbol, or other potential indicator in commerce as a “mark” – i.e., with the intent that potential consumers of the goods or services

---

199 Id. § 19.04[3].
200 Id. § 19.04.
202 Id.
offered by that individual or entity associate the term, logo, or symbol with the individual or entity as the source of not only those goods or services but also the quality thereof. Such use constitutes use as a trademark (in connection with goods) or as a service mark (in connection with services). Both trademarks and service marks will hereinafter be referred to as “marks.”

Marks subject to protection in the United States under the Lanham Act and related jurisprudence include virtually any term, logo, symbol, or potential indicator that is used as a mark. However, in order to register a mark at the USPTO, which is discussed in more detail below, the mark, among other things, (i) must be inherently distinctive, or, through use in commerce, have become distinctive, of the mark owner’s goods or services and (ii) must not so closely resemble another mark registered or previously in use in the United States as to be likely to cause confusion among potential consumers of those goods or services.

The overt act in the context of a mark is “use” of the mark in commerce in connection with the relevant goods or services in furtherance of and accordance with the requisite intent described above, because only upon such use can the goodwill symbolized by that mark come about.

2. Categories of Marks

In addition to trademarks and service marks, any visual appearance of a product or its packaging or of a structural design (e.g., the color scheme and other visual aspects of a building exterior) that serves as an indicator to potential consumers of the source of certain goods or services may constitute a mark under the name of “trade dress.” Simply put, any term, logo, symbol, or other potential indicator used as a source indicator may qualify as a mark.

It is important to distinguish use of a word or term as a “trade name,” which is directed solely to identifying the applicable business organization, from use of that word or term as a “mark,” which may serve to identify the mark owner’s business but which primarily (and most importantly) also must perform a source indicator function.

---

203 See generally 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:1 (4th ed. 2011) [hereinafter MCCARTHY ON TRADEMARKS].
204 See 5 MCCARTHY ON TRADEMARKS § 27:18.
206 1 MCCARTHY ON TRADEMARKS § 8:4.
207 1 id. § 4:13.
3. Rights in Marks

Upon formation of the requisite intent and use of the mark in furtherance thereof, a common law priority of right to use that mark in connection with those goods or services within the geographical area where such use occurs (i.e., “priority of right”) vests in the user thereof (or its licensor). However, any such priority of right is subject to the priority of right of any prior users of the same or a substantially similar mark in connection with related goods or services within that area. Such prior users possess a prevailing priority of right, because, as a general rule at common law, (i) use of a mark in connection with certain goods or services within a certain geographical area establishes a priority of right in the user, as of the date of such use (i.e., the “priority date”), as against future uses of that same or a substantially similar mark in connection with related goods or services within that area and (ii) a user with an earlier priority date (i.e., a “senior user”) prevails over a user with a later priority date (i.e., a “junior user”).

Trademark protection for a term, logo, symbol, or other potential source indicator applies only to the extent that the potential source indicator functions as a mark and not to (i) any aspects thereof that are solely creative or expressive in nature, all of which may be subject to copyright protection as discussed in Section II.B. above or (ii) any utilitarian or functional aspects of the potential source indicator, all of which may be subject to patent protection as discussed in Section II.C. above.

4. Prosecuting an Application to Register a Mark at the USPTO

Although it is not necessary to register a mark with the USPTO in order to accrue common law rights in that mark (and its associated goodwill) through use of the mark in commerce, federal registration does carry with it certain benefits, some of which are described in Section II.D.4.(c) below. For unregistered marks, the overt act requirement discussed above is satisfied through actual use of the mark in any commercial context, and any priority of right that arises out of such use is traceable to the date of such actual use, which constitutes the user’s priority date. However, in the case of a mark

---

208 See 2 id. § 16:1.
209 Id.; 2 id. § 16:18.50.
210 See 3 id. § 19:8.
211 See 2 id. § 16:1.
for which the owner pursues and secures federal registration at the USPTO, the *overt act* requirement, which necessarily implicates use in interstate commerce,\(^{212}\) may be satisfied not only on the actual use basis just described but also on a “constructive use” basis prior to commencement of such actual use, which, as explained in Section II.D.4.(b) below, may result in an earlier priority date.\(^{213}\)

a. *Use-Based Applications*

In the event that a mark owner is using its mark in interstate commerce in connection with certain goods and/or services and desires to pursue a federal registration for that mark in connection with such goods and services, the owner would file a use-based registration application with the USPTO. In such cases, the USPTO generally will look to, among other things, the owner’s date of first actual use of the applied-for mark in interstate commerce in connection with those goods and/or services, as stated in the registration application, in determining the mark owner’s priority of right vis-à-vis other applicants that seek registration of the same or similar mark in connection with goods and/or services related to those of the mark owner.\(^{214}\)

b. *Intent-to-Use Applications*

The constructive use process commences by filing with the USPTO an intent-to-use application to register the mark, which is filed before actual use of the mark commences and wherein the applicant declares a bona fide intent, as of the filing date of the application, to use the mark in interstate commerce in connection with the relevant goods or services.\(^{215}\) However, a priority of right to use the applied-for mark will not vest, and a registration for the mark will not issue, unless and until, among other things, the applicant commences actual use of the mark in interstate commerce within the prescribed time period.\(^{216}\) Upon commencement of such actual use and issuance of a

\(^{212}\) See *id.* § 19:104.

\(^{213}\) 2 *id.* § 16:1.

\(^{214}\) See *id.*

\(^{215}\) 2 *id.* § 16:2.

\(^{216}\) 15 U.S.C. § 1051(d)(1) (2011). Once the USPTO issues a Notice of Allowance on an intent-to-use application, which indicates that the application has satisfied the relevant requirements for registration, the applicant nonetheless must commence use of the applied-for mark in interstate commerce in connection with the relevant goods and/or services within six (6) months thereafter in order for a registration to issue. *Id.* The applicant can petition the USPTO for up to five consecutive 6-month extensions of the period within which to commence such use; however, in the event such use does not commence within 36 months after issuance.
registration for the mark, the applicant’s priority date is deemed to be the filing date of the intent-to-use application rather than the date of first actual use of the mark. It is important to note that as long as a mark is the subject of a registration application having an intent-to-use filing basis, no goodwill is established in that mark, which, as discussed in Section II.D.6. below, has significant consequences in connection with any proposed assignment of that mark or its associated registration application.

c. USPTO Examination

After examining a use-based or intent-to-use registration application for a mark, the USPTO typically issues an office action directed primarily at identifying any (i) registration “refusals” due to the applicant’s failure to comply with the Lanham Act’s statutory requirements for registration or (ii) registration “objections” due to the applicant’s failure to comply with the USPTO’s administrative requirements for registration. In order to put the application in a condition for approval by the USPTO, the applicant must overcome all such refusals and objections. Additional office actions from the USPTO and applicant responses thereto, may be required to address other issues as they arise. In the event that the applicant cannot overcome all such refusals and objections after the USPTO makes its determinations final, the applicant may either (a) appeal the adverse determinations to the USPTO’s Trademark Trial and Appeal Board (“TTAB”) or a federal court or (b) abandon the application.

If and when the application passes muster at the USPTO, it is published for opposition in order to give any third party an opportunity to oppose registration of the applied-for mark on the grounds that such registration would cause damage to that party. Any opposition to registration is conducted pursuant to a proceeding before the TTAB, and prosecution of the registration application is suspended pending the outcome of that proceeding. Absent any such opposition, or in cases where the applicant prevails in an opposition proceeding, (i) if the application is use-based, a registration thereafter in the normal

---

of the Notice of Allowance, the application goes irretrievably abandoned. *Id.* § 1051(d)(2), (4).

---

218 See *infra* notes 230–38 and accompanying text.
220 See *id*.
221 See *id*.
course or (ii) if the application is intent-to-use based, the USPTO will issue a Notice of Allowance, which starts a three-year period within which the applicant must commence use in interstate commerce of the applied-for mark in connection with the relevant goods and/or services in order for a registration ultimately to issue.223

\[ d. \text{ Benefits of Federal Registration} \]

Federal registration of a mark for use in interstate commerce in connection with certain goods and/or services provides the registrant with a priority of right throughout the entire United States to use the same or any substantially similar mark in connection with the same or related goods and/or services.224 However, in accordance with the general rule stated in Section II.D.3. above, such nationwide priority of right is subject to the rights of any senior users within the geographical area of use by such senior users as of the filing date of the registration application. Moreover, this priority of right is predominately evidentiary in nature.225

It is important to note that, unlike unregistered marks in which the priority of right to use the mark is limited to the geographical area of use, the priority of right to use a federally registered mark is nationwide (subject to rights of senior users as described above) even if, for example, that mark has not been used in all fifty (50) states.226 However, in order to qualify for federal registration, such use must occur, at a minimum, in interstate commerce.227 In addition to the foregoing priority of right, as with registration of a copyrighted work, federal registration of a mark provides certain procedural advantages and remedies, which are not otherwise available absent such registration, in connection with enforcing that priority of right against infringers.228

\[ 223 \text{ The Lanham Act also provides a means whereby a party may petition to cancel a federal registration on the grounds that it causes damage to that party.} \text{ 15 U.S.C. § 1064 (2011). } \]


\[ 225 \text{ See id. § 1057(b) (2011) (“A certificate of registration of a mark upon the principal register . . . shall be prima facie evidence of the validity of the registered mark and of the registration of the mark, of the owner’s ownership of the mark, and of the owner’s exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the certificate, subject to any conditions or limitations stated in the certificate.””) } \]

\[ 226 \text{ Id., see also Du Barry of Hollywood, Inc. v. Richard Hudnut, 323 F.2d } 986, 988–89 (9th Cir. 1963). \]

\[ 227 \text{ See supra note 50. } \]

\[ 228 \text{ See 3 MCCARTHY ON TRADEMARKS § 19:8. } \]
5. **Notice of Registration**

A registrant can provide public notice of federal registration of a mark by affixing notice including one of the following elements immediately adjacent to the mark: (i) the words “Registered in the U.S. Patent and Trademark Office”; (ii) abbreviation “Reg. U.S. Pat. & Tm. Off.”; or (iii) the letter “R” enclosed within a circle (i.e., “®”). Subsequent notice serves to enhance the scope of damages potentially recoverable by the mark owner in any suit brought to enforce its rights in the mark.

6. **Transfer of Ownership Rights in Federally Registered and Applied-for Marks**

Ownership of rights in federally-registered marks and marks that are the subject of pending federal registration applications (collectively, “Federal Marks”) and goodwill associated with such marks initially inure in the party that either actually or constructively uses the Federal Mark in commerce on or in connection with the relevant goods or services, and such rights vest upon such actual use. In order for ownership rights in a Federal Mark and any associated goodwill therein, which arises out of use of that mark, to vest in any party other than the user of the mark, the user must execute a written document transferring all those rights to that other party.

Such a case arises when the owner of a Federal Mark relies on licensees to make use of that mark in connection with some commercial activity involving the relevant goods or services. This situation typically arises when the owner of the Federal Mark is a manufacturer that relies on distributors or other such third-party licensees to market and sell the manufacturer’s branded products. To protect against any unintended vesting in such licensees of any rights in the Federal Mark or associated goodwill, the licensee’s marketing and sales activities should be governed by a written license agreement that transfers all such rights to the owner of the Federal Mark and states that all uses of that mark by the licensee, and all

---

230 3 McCarthy on Trademarks § 19:144.
231 Id. § 16:35.
232 15 U.S.C. § 1060 (2011); 3 McCarthy on Trademarks § 18:1 (defining assignment of a mark as “an outright sale of all rights in that mark”).
233 See 3 McCarthy on Trademarks, § 18:40–43 (stating that owners of a mark may license the use of the mark to other parties, even though it is not specifically allowed in the Federal Lanham Act).
234 3 id. § 16:48.
goodwill arising therefrom, inures to the sole and exclusive benefit of the owner.\textsuperscript{235}

Trademarks and service marks used in connection with a mark owner’s business are merely symbols of the goodwill in that business that arises out of such use.\textsuperscript{236} As a result, (i) trademarks and service marks have no significance independent and apart from the goodwill they symbolize; (ii) a mark and the goodwill that it symbolizes are inseparable; and (iii) any goodwill symbolized by a mark cannot materialize unless and until that mark is used in commerce in connection with the relevant goods or services.\textsuperscript{237}

The foregoing principles give rise to the following facts regarding transfers of ownership rights in marks: (1) any transfer of ownership rights in a mark without transfer of its associated goodwill constitutes an assignment-in-gross that is null and void and of no force or effect for purposes of transferring the associated goodwill and (2) marks that have not yet been used have no associated goodwill and, therefore, ownership rights therein cannot be transferred.\textsuperscript{238}

As a corollary to the foregoing in clause (2), as long as a mark is the subject of a registration application having an intent-to-use filing basis, neither that registration application nor the applied-for mark can be transferred to an individual or entity other than a successor to the mark owner’s business (or portion thereof to which the mark pertains) that intends to continue operating that business (or portion thereof) after the transfer takes effect.\textsuperscript{239}

As with transfers of ownership of copyright and patent rights, a transfer of ownership of rights in a Federal Mark may occur either (i) by operation of law or (ii) by written agreement. Oral transfers of ownership of such rights are unenforceable and of no force or effect.\textsuperscript{240}

\textit{a. Transfer by Operation of Law}

Ownership of rights in a Federal Mark may be transferred by operation of law in connection with any business consolidation or combination (\textit{e.g.}, a merger) for which applicable law provides for transfer of all right, title, and interest in, and to the intangible assets

\begin{itemize}
\item \textsuperscript{235} 3 \textit{id.} § 18:45.50.
\item \textsuperscript{236} 1 \textit{id.} § 2:15.
\item \textsuperscript{237} United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918); 3 \textit{MCCARTHY ON TRADEMARKS} § 18:2.
\item \textsuperscript{238} 3 \textit{MCCARTHY ON TRADEMARKS} § 18:3.
\item \textsuperscript{240} 15 U.S.C. § 1060(a)(3).
\end{itemize}
(such as intellectual property rights) of the individual business entities into the consolidated or combined business entity.\textsuperscript{241}

\textit{b. Transfer by Written Agreement}

If ownership of rights in a Federal Mark do not transfer by operation of law pursuant to the principles described in the immediately preceding paragraph, such rights may be transferred only by a written agreement signed by the party transferring such rights.\textsuperscript{242}

\textbf{7. Recordation of Transfers of Ownership of Rights in Federally Registered and Applied-for Marks}

In order to protect itself against a later-executed, conflicting transfer of rights in a Federal Mark to a later transferee that would otherwise be a bona fide purchaser for value without actual notice of the initial transfer, a rightful transferee of ownership in such rights must, within three months after the date of the initial transfer or prior to the later transfer, have any such transfer of ownership of such rights recorded at the USPTO along with a copy of the transfer document.\textsuperscript{243} Although acknowledgement (\textit{i.e.}, notarization) of the executed transfer document is not required for its validity, it does constitute prima facie evidence of the execution of the transfer.\textsuperscript{244}

\textbf{8. Activities That Can Result in Loss of Rights in a Mark}

In order to prevail in a federal infringement or dilution action to enforce rights in a mark, the mark owner must prove that (i) it owns valid and enforceable rights in the mark and has standing to bring the action, all consistent with applicable legal requirements and (ii) the accused party has usurped the mark owner’s exclusive right to use the infringed or diluted mark in connection with the applicable goods or services free of other confusingly similar or dilutive marks. With regard to the second element of proof, the mark owner must prove that the accused party’s unauthorized use of the mark at issue is likely to cause (1) confusion or mistake in the marketplace with respect to the source of the mark owner’s and/or the infringer’s goods or services; (2) confusion, or to cause mistake, or to deceive consumers as to an affiliation, connection, or association by and between the mark owner and the infringer that does not, in fact, exist; or (3) dilution of the

\textsuperscript{242} Id. § 1060(a)(3).
\textsuperscript{243} Id. § 1060(a)(4).
\textsuperscript{244} Id. § 1060(a)(3).
value of a famous mark by blurring or tarnishment. Therefore, any act or omission by or on behalf of the mark owner that bars proof of either or both of the foregoing elements can result in loss of, or inability to enforce, the mark owner’s rights in the infringed or diluted mark.

Following are some of the ways in which rights in marks can be lost or rendered temporarily unenforceable:

a. Abandonment

As with patent rights, abandonment in connection with rights in marks can occur in several ways.

First, a mark owner may abandon the mark itself as follows:

i. Non-Use

Because use of a mark is the linchpin from which all rights in that mark derive, any prolonged non-use of a mark that is coupled with the intent to not resume use of the mark, will result in abandonment of, and loss of rights in, the mark. Non-use of a mark for a period of three (3) consecutive years creates a rebuttable presumption of abandonment of the mark. Intent not to resume use of a mark may be inferred from the circumstances surrounding such non-use.

ii. Failure to Control Quality

Any failure of the mark owner to establish and implement appropriate control measures over (i) the quality of the goods and services in connection with which the applicable mark is used and (ii) the manner in which that mark is used may result in abandonment of the mark due to failure of the mark to continue serving as a consistent indicator of the quality of the associated goods or services.

iii. Assignment Without Goodwill

Transfer of ownership rights in a mark without contemporaneous transfer of the goodwill associated with that mark

245 15 U.S.C. § 1125(a)(1)(A) (2006) (stating civil action requirements pertaining to confusion in the marketplace and/or affiliation); id. § 1125(c) (stating injunctive relief remedies for dilution of famous mark by blurring or tarnishment).
246 See 15 U.S.C. §§ 1114, 1125(a); see, e.g., Fisons Horticulture, Inc. v. Vigoro Indus., Inc., 30 F.3d 466, 472 (3d Cir. 1994).
248 Id.
completely undermines the source indicator function of the applicable mark thereby resulting in its abandonment.\footnote{250}

iv. Genericness

Failure of the mark owner to vigilantly monitor for unauthorized uses of its mark and to vigorously enforce its rights in such marks against potential infringers may cause the applicable mark to lose its source indicator characteristics and ultimately become generic, which is a form of abandonment.\footnote{251}

Second, a trademark or service mark registration application may go abandoned for applicant’s failure to prosecute the application in accordance with rules and regulations established by the USPTO.\footnote{252}

Finally, a trademark or service mark registration may go abandoned (i.e., expire) for registrant’s failure to file certain documentation and pay certain fees required to maintain the registration in effect.\footnote{253}

\textit{b. Assignment of an Intent-to-Use Registration Application}

Except under the very limited circumstances described in Section II.D.6. above, a registration application for a mark filed on an intent-to-use basis cannot be assigned prior to converting to a use-based application without jeopardizing the validity and enforceability of any registration that might issue from that application.\footnote{254}

\textit{c. Failure to Provide Notice of Registration}

The Lanham Act generally provides that a mark owner may recover (i) the infringer’s profits and the mark owner’s damages resulting from the infringement, and (ii) costs of the infringement action.\footnote{255} Monetary relief under the Lanham Act is available for (1) infringement of the mark owner’s rights or dilution of the mark’s value under federal law that occurs after the mark is registered and (2) pursuant to § 1125 of the Lanham Act, violations of the mark owner’s rights under common law that occur prior to such registration.\footnote{256}

\footnote{250} See 15 U.S.C. § 1060(a)(1); see, e.g., Defiance Button Mach. Co. v. C & C Metal Prods., 759 F.2d 1053 (2d Cir. 1985).
\footnote{252} 37 C.F.R. § 2.65 (2010).
\footnote{253} Id. §§ 2.182–2.183.
\footnote{254} 3 MCCARTHY ON TRADEMARKS § 19:61.
\footnote{256} Id. § 1125.
While failure to provide proper notice of registration of a mark does not preclude liability in an infringement action, it does have a bearing on the amount of monetary relief awarded. For example, § 1111 of the Lanham Act precludes recovery of profits and damages if the mark owner fails to provide notice of the mark’s registration in accordance with the provisions of the Lanham Act, unless the infringer had actual notice of such registration. Thus, the mark owner’s remedies in such a situation are limited to recovery of the costs of the infringement action and an injunction against further infringing activity.

Furthermore, § 1114 of the Lanham Act precludes recovery of profits and damages from a contributory infringer (i.e., one who assists, but does not directly participate in, an act of direct infringement of a trademark) unless the contributory infringer acts with knowledge that its conduct is intended to be used to cause confusion or mistake, or to deceive. Once again, the trademark owner’s remedies in such a situation are limited to recovery of the costs of the infringement action and an injunction against further infringing activity.

d. Misuse of Marks

If a mark owner exploits its rights in a mark beyond the scope of the exclusive rights granted by law to the mark owner with an overall anticompetitive effect, the mark owner may be guilty of misuse of the mark. For any infringement action brought by a mark owner guilty of such misuse in which the misuse directly relates to the mark at issue in such action, the alleged infringer may have grounds for asserting a defense based on misuse of the mark. As is the case with copyright and patent misuse, when misuse of a mark arises, it is often in connection with licensing arrangements that attempt to expand the scope of the exclusive rights attendant to licensed marks beyond its legally permissible boundaries. All such rights in the mark are

---

257 See id. § 1111 “[A] registrant of a mark . . . may give notice that his mark is registered . . . and in any suit for infringement under this chapter by such a registrant failing to give such notice of registration, no profits and no damages shall be recovered . . . unless the defendant had actual notice of the registration.” (emphasis added).
258 Id.
259 See id.
260 Id. § 1114(1), (2)(A).
261 Id. §§ 1114(2)(A–B).
262 6 MCCARTHY ON TRADEMARKS § 31:91.
263 Id.
264 Id.
rendered unenforceable until all the misuse and its related consequences are purged.\textsuperscript{265}

e. Fraud and Inequitable Conduct before the USPTO

As with patent applications prosecuted before the USPTO, applicants seeking registration of marks and their counsel have a duty to prosecute registration applications before the USPTO in good faith and with candor and honesty.\textsuperscript{266} However, there are a number of fundamental differences between prosecuting patent applications and registration applications for marks that give rise to a somewhat less stringent duty of candor in connection with the process for registering marks.\textsuperscript{267} Two of those differences are as follows:

First, unlike patent applications, which are prosecuted before the USPTO on a confidential, ex parte basis without any opportunity for third party input during the prosecution process, prosecution of registration applications for marks provides a publicly available record of the entire proceeding and includes an opposition period (discussed in Section II.D.4.C. above) after substantive examination, during which third parties may oppose registration of the applicable mark on grounds that such registration would cause damage to that third party.\textsuperscript{268}

Second, unlike patent rights in an invention, which do not fully vest in the applicant unless and until a patent issues on the invention, initial rights in marks vest upon use of the mark and are not contingent on securing a registration for the mark.\textsuperscript{269} Said another way, grant of a patent creates rights while issuance of a registration for a mark merely broadens the geographical scope, and further reinforces the validity and enforceability, of already existing rights by establishing corresponding evidentiary presumptions in favor of the registrant.\textsuperscript{270}


\textsuperscript{266} See 37 C.F.R. § 1.56 (“Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office.”). See, e.g., Aromatique, Inc. v. Gold Seal, Inc., 28 F.3d 863, 877 (8th Cir. 1994) (“Aromatique defended its actions in part by asserting that an applicant for a trademark owes no duty of candor to the PTO. This is plainly wrong.”).

\textsuperscript{267} 6 MCCARTHY ON TRADEMARKS § 31:65.


\textsuperscript{269} 2 MCCARTHY ON TRADEMARKS § 16:1.

\textsuperscript{270} See supra note 225.
The foregoing differences highlight the need for a more stringent duty of candor in the patent application context for the following reason: Because the exclusionary effects of patent rights are more far-reaching than similar effects arising from registration of a mark, closer and more demanding scrutiny is warranted in connection with prosecuting patents in order to ensure that each patent grant rewards true technological innovation without unnecessarily constraining the public’s use of technology that otherwise should be freely available.

As in the patent context, fraudulent and inequitable conduct in connection with prosecuting registrations for marks typically involves material misrepresentations and false statements and failure to disclose information material to the registrability of the applicable mark with the intent to deceive and mislead the examiner into issuing a registration. However, notwithstanding that fraudulent or inequitable conduct in prosecuting a registration application for a mark will invalidate or preclude issuance of a registration for the underlying mark, such conduct will not render invalid or unenforceable the common law rights in the underlying mark. That is so primarily because those rights are created upon use of the mark in commerce and are not dependent on a registration for their vitality. Such a result seems reasonable and understandable from an infringement litigation perspective for the following reason: Rendering common law rights in a mark unenforceable due to the mark owner’s fraudulent or inequitable conduct during prosecution of an application to register that mark would defy the objectives of trademark law by permitting the accused infringer to continue causing consumer confusion in the marketplace.

f. Parody and Comparative Advertising

Similar to the balancing of competing interests that occurs in analyzing the fair use defense to copyright infringement, courts sometimes are called upon to balance free speech considerations with a mark owner’s legitimate expectation to be free of confusingly similar and dilutive marks. Parody and comparative advertising are two contexts within which such balancing is required. Use of another’s trademark or service mark in either context is not likely to cause

\[\text{References:}\]
271 6 id. § 31:59–83.
272 6 id. § 31:60.
273 6 id. § 31:60.
customer confusion, and therefore is not actionable, as long as certain requirements are met in each case.275

Parody typically involves a combination of criticism/critique and humor that employs some degree of imitation in order to achieve the desired effect.276 When the imitation involves use of another party’s mark in order to catch the reader’s attention, as long as the content of the parody is such that the reader quickly realizes that such use is actually a parody and not the “real thing,” there is usually little likelihood that confusion will result. On the other hand, if the message of the parody is slow to develop or otherwise is likely to be missed altogether by the reader, actionable confusion may well result.277

Use by a party of another party’s mark in comparative advertising typically attempts to tout the advantages and benefits of the using party’s goods or services compared with those offered by the other party. As long as the advertising content is truthful and not confusing as to (i) the source of the goods or services being compared or (ii) any affiliation between the parties, such use is likely not objectionable.278 In order to minimize the chance of any such confusion, a disclaimer of association is sometimes included as part of the advertising.279

g. Fair Use

“Fair use” of a mark involves use of another party’s mark that is legal (i.e., non-infringing), because it does not give rise to a likelihood of confusion. There are two types of fair use in connection with marks: (i) classic fair use and (ii) nominative fair use.

i. Classic Fair Use

Classic fair use is use of another party’s mark, or a mark substantially similar thereto, merely to describe something about the user’s goods or services, rather than use in a trademark sense (i.e., as an indicator of the source of the user’s goods or services).280 Likelihood of confusion is precluded in such cases because the other party’s mark is not being used as a source indicator.281 This type of fair use most often occurs in connection with marks that are

275 4 MCCARTHY ON TRADEMARKS § 23:11.
276 Id.
277 6 id. § 31:154.
278 4 id. § 25:52.
279 Id.
280 2 id. § 11:45.
281 Id.
descriptive in nature – *i.e.*, marks to which trademark law affords very little protection.  

ii. Nominative Fair Use

Nominative fair use is use of another party’s mark to identify the mark owner’s goods and/or services, not the user’s goods and/or services. Use of a mark constitutes nominative fair use if (i) the mark owner’s goods and/or services are readily identifiable to consumers only through use of the mark; (ii) the mark is used only to the extent reasonably necessary to identify the mark owner; and (iii) the mark is not used in a way that states or suggests any sponsorship or endorsement by the mark owner.

h. Other Activities to Avoid

The discussion above in Sections II(B)(8)(d)-(e) and II(C) with respect to loss of copyright rights under theories of implied license and laches applies with equal force and effect to rights in marks.

E. Trade Secrets

The *intellectual* act in a trade secret context involves (i) creation, conception, or other similar mental act by an individual giving rise to certain subject matter, whether or not copyrightable or patentable, that (1) is readily distinguishable from generalized knowledge and skill; (2) is secret (*i.e.*, not generally known or easily compiled); and (3) derives independent economic value from its secret status coupled with (ii) “formation of the requisite intent” to maintain the secrecy of such subject matter.

The overt act giving rise to property-related rights in a trade secret context involves taking steps reasonably necessary to maintain the secrecy of the foregoing subject matter in furtherance of the intent described in clause (ii) above. Although secrecy is at the heart of the overt act requirement in a trade secret context, the tangible measures

282 Id.
283 Id. § 23:11.
284 Id.
285 Id.
286 Id. (citing New Kids on the Block v. News Am. Pub., Inc., 971 F.2d 302, 308 (9th Cir. 1992)).
287 See generally 3 MCCARTHY ON TRADEMARKS §§ 18:43.50, 31:1.
288 See ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.01 (2010).
that a trade secret owner adopts and implements in order to maintain that secrecy (e.g., confidentiality agreements, security procedures, etc.) serve the public notice function described at the beginning of this chapter.\textsuperscript{289} In some cases, owners of patentable subject matter elect to treat such subject matter as a trade secret, as opposed to filing for patent protection, due to the disclosure required in connection with seeking patent rights in such subject matter and the uncertainty in ultimately securing such rights.\textsuperscript{290}

Any act or omission by or on behalf of a trade secret owner that results in a loss of trade secret status will diminish, if not eradicate, the value of the trade secret.\textsuperscript{291} Examples include (i) providing access to trade secrets without first implementing and enforcing reasonable confidentiality obligations and restrictions and (ii) failure to institute reasonable security measures to control access to and dissemination of trade secrets.\textsuperscript{292}

Unlike issues involving copyrightable or patentable subject matter, all of which are governed primarily, if not exclusively, by federal law, issues involving trade secrets are subject to the laws of the respective states in each case.\textsuperscript{293}

\section{III. \textbf{IMPACT OF THE HITECH ACT: CREATING A NEW MARKET FOR HIT}}

This Section III will explore the ways in which the HITECH Act has created a dramatically expanded market for HIT products, and how our existing intellectual property legal structures provide a key ingredient necessary to facilitate and sustain this new HIT market.

As a result of the HITECH Act, health care providers now have a tangible and easily quantifiable financial motivation to purchase and implement EHR systems. Under the HITECH Act’s EHR Incentive Program, physicians can receive up to $44,000 in financial incentives for adopting and achieving meaningful use of certified EHR systems;\textsuperscript{294} physicians that have an average Medicaid patient population of 30% or more can receive up to $63,750 in incentives.\textsuperscript{295}

\textsuperscript{289} See \textit{id.} § 1.04.
\textsuperscript{290} See \textit{id.} § 1.06.
\textsuperscript{291} See \textit{id.} § 1.05.
\textsuperscript{292} See \textit{id.}
\textsuperscript{293} See \textit{id.} § 1.01.
\textsuperscript{294} 42 C.F.R. § 495.102(b) (2010).
\textsuperscript{295} \textit{Id.} §§ 495.304, 495.310(a)(3).
Hospitals will stand to receive even greater incentive amounts, easily reaching into the millions of dollars.\textsuperscript{296} Accompanying the “carrot” of financial incentives for providers that demonstrate meaningful use, however, is the “stick” of financial penalties for providers that fail to do so: physicians that fail to demonstrate meaningful use by 2015 will face reductions in their Medicare reimbursement rates of up to 1\%,\textsuperscript{297} while hospitals will face reductions in their annual Medicare Inpatient Prospective Payment System market basket update.\textsuperscript{298}

In addition to the potential financial incentives (and penalties) under the EHR Incentive Program, the HITECH Act may also create certain intangible benefits for those providers that implement EHR systems. As set forth in the Meaningful Use Rule, CMS will maintain and make publicly available (through its website) a list of all health care providers that have adequately demonstrated meaningful use of EHR technology.\textsuperscript{299} As EHRs become pervasive among health care providers, patients likely will come to understand and appreciate the many health care benefits of EHRs, and may eventually begin to seek out providers that have met the meaningful use criteria, and avoid providers that have not. The HITECH Act thereby creates a valuable resource for patients to easily identify those providers that have adopted and are using EHRs in a meaningful manner. As a result, providers that wish to successfully attract and retain patients will have further incentive to adopt and embrace EHR technology and related systems.

Considering both the tangible and intangible incentives for providers under the HITECH Act, it is likely that the demand for EHR products will significantly increase in the coming years. In fact, CMS estimates that approximately 624,000 providers will be eligible for incentives under the EHR Incentive Program.\textsuperscript{300} The influx of federal funds under the HITECH Act will help subsidize the purchase and license of EHR technology for many providers that otherwise may not have been able to afford an EHR system, in effect, drawing new purchasers into the HIT market. Providers who already own or license EHR systems may seek to use HITECH Act incentive payments to upgrade or expand their EHR capabilities. In either case, the vast

\textsuperscript{296} See id. §§ 495.104, 495.310(f).
\textsuperscript{297} Id. § 495.102(d).
\textsuperscript{298} Medicare and Medicaid Programs; Electronic Health Record Incentive Program, 42 C.F.R. §§ 412, 413, 422, & 495.
\textsuperscript{299} 42 C.F.R. § 495.108(a).
number of providers eligible for incentives under the HITECH Act will increase the demand for EHR products, and this increase in demand will result in a significant opportunity for EHR vendors to enter or expand their presence in the HIT market.

While the increase in demand for EHR products will be a key motivator for EHR vendors, there are additional factors that will further incentivize EHR developers to create or expand their EHR product offerings. One such factor is the process developed under the HITECH Act for the certification of EHR products. As discussed in more detail in Section I above, in order to qualify for incentive payments under the EHR Incentive Program, providers must adopt and implement “certified” EHR technology.\(^{301}\) ONC has established a process whereby EHR vendors may test and certify their EHR products.\(^{302}\) Under the certification program, ONC will designate certain private entities as “ONC-Authenticated Testing and Certification Bodies” (“ONC-ATCBs”).\(^{303}\) Currently, six organizations have been authorized as ONC-ATCBs: Drummond Group, Inc.; Certification Commission for Health Information Technology (“CCHIT”); InfoGard Laboratories, Inc.; SLI Global Solutions; ICSA Labs; and Surescripts LLC.\(^{304}\)

ONC-ATCBs are authorized to test and certify both Complete EHRs and EHR Modules.\(^{305}\) EHR vendors will be required to demonstrate, in accordance with the applicable ONC-ATCB’s procedures, that the applicable vendor’s EHR technologies provide all of the capabilities required to allow providers to meet the Stage 1 meaningful use criteria.\(^{306}\) Once certified, the ONC-ATCB will report to ONC information about the certified EHR technology, including the specific meaningful use criteria that have been demonstrated by the EHR vendor.\(^{307}\)

As a key component of the certification process, ONC will maintain and publish an updated list of all EHR technology that has

---

\(^{301}\) 42 C.F.R. § 495.8(a)(1)(A) (2010).


\(^{303}\) 45 C.F.R. § 170.401 (2010).


\(^{305}\) 45 C.F.R. § 170.410 (2010).

\(^{306}\) See id. § 170.423(e).

\(^{307}\) Id. § 170.423(h).
been certified by an ONC-ATCB. This list will provide a detailed description of each of the certified EHR products, including the specific functionality that has been certified by the ONC-ATCB. The publication of certified EHR products by ONC is likely to be an important motivator for EHR vendors.

As health care providers seeking to demonstrate meaningful use begin to enter the EHR market, those providers will be required to implement certified EHR products. The publication of certified EHR products by ONC provides what is, in effect, a free advertising mechanism for EHR vendors. All potential EHR purchasers desiring to capitalize on the EHR Incentive Program will be highly motivated, if not required, to consult the list of certified EHR products before entering the EHR Incentive Program, and by having a product identified on the certified product list, EHR vendors can be assured that providers are aware of the vendors’ potential product offerings. In addition, a provider will be able to evaluate and compare the entire spectrum of certified EHR products to find the product that most closely fits its particular needs. The certification process thereby creates a clearly defined marketplace for EHR technology, one which is easily accessible to potential purchasers.

Furthermore, ONC established the certification process in a manner that aims to reduce potential barriers to entry for EHR vendors seeking to enter the EHR market. As discussed in Section I above, the Certification Rule allows EHRs to be certified as either Complete EHRs or EHR Modules. A Complete EHR is EHR technology that has been developed to meet all certification criteria adopted under the Certification Rule, whereas an EHR Module is any EHR component that can meet the requirements of at least one certification criterion under the Certification Rule. Permitting vendors to certify both Complete EHRs and EHR Modules is important because it allows a broad range of potential vendors to offer products in the certified EHR market. For example, if the Certification Rule only allowed certification of Complete EHRs, some EHR vendors would be precluded from offering certified EHR products, simply because they do not have the capacity to develop Complete EHRs. The Certification Rule is much more flexible, however. An EHR vendor only needs to show that the EHR technology can meet the

---

309 Id.
310 Id. § 170.102 (2010).
311 Id.
312 Id.
requirements of one of the Certification Rule’s certification criterion, which is significantly less onerous than meeting the full array of certification criteria.

The effect of this flexible approach is two-fold: First, it allows a greater number of EHR vendors to offer certified EHR products to those providers that wish to receive incentives under the EHR Incentive Program. Second, by expanding the number of EHR vendors in the marketplace, providers will have a greater choice of EHR products. As a result, ONC’s certification process benefits not only vendors, by establishing relatively low thresholds for entry into the EHR market, but also health care providers, by providing a greater variety of choices among certified EHR products.

Ultimately, ONC sought to use the flexible certification process for Complete EHRs and EHR Modules to spur innovation and creativity in the EHR marketplace in order to support the newly created demand for EHR technology.313 While the success of ONC’s certification process will not be fully realized for several years, it does appear that ONC has begun to meet its goal of spurring innovation in the HIT market, especially with respect to EHR products and related services. As of the writing of this Article, ONC-ATCBs have certified 413 EHR products.314 Among those certified products, 245 have been certified as Complete EHRs and 168 as EHR Modules.315 Although certified Complete EHRs do outnumber the certified EHR Modules, the number of certified EHR Modules is not insignificant. Certified EHR Modules comprise 41% of the certified EHR products.316 Had ONC not permitted vendors to certify both Complete EHRs and EHR Modules, the number of available certified EHR products would have been substantially reduced.

The above paragraphs describe three factors important for motivating EHR vendors to enter the HIT market: (1) the increased demand for EHR products resulting from potential incentives and penalties under the EHR Incentive Program; (2) the defined market for EHR products created by the ONC certification process and facilitated by the publication of certified EHR products to potential purchasers; and (3) the flexible barriers to entry into the EHR market as a result of

315 See id.
316 See id.
certification for both Complete EHRs and EHR Modules. Each of these factors will help reshape the EHR market and create significant incentives for EHR vendors to continue to develop and produce EHR products.

While each of the foregoing factors is crucial to the success of the new market for EHR technology, the authors submit that those factors alone are not sufficient to ensure that EHR vendors become and remain adequately motivated to develop EHR products. In fact, another key ingredient necessary to ensure the success of the HITECH Act’s EHR Incentive Program and the growing trend toward widespread adoption of EHRs is not part of the HITECH Act, but rather, is a product of our existing legal system; that ingredient is, of course, the legal protections afforded by our intellectual property legal structures.

The framework of intellectual property laws in the United States provides a vehicle whereby ownership of intellectual property rights in EHR technologies is allowed to ultimately vest in the appropriate party, such as EHR vendors that create, conceive, and otherwise develop such technologies, and are adequately protected against others who might try to infringe upon, misappropriate, or otherwise violate such rights. The HITECH Act certainly creates broad new opportunities for EHR vendors to develop and market their products, but without protection under the intellectual property laws, such product development would be futile; vendors will only be motivated to create and innovate to the extent their creations and innovations are and will remain protected. As such, intellectual property laws are a fundamental ingredient to ensuring the success and sustainability of the new EHR market envisioned under the HITECH Act.

As an illustration, several products and mechanisms have recently benefited from established intellectual property protections following passage of the HITECH Act. Since early 2009, the Copyright Office has issued copyright registrations to a number of computer software developers for software programmed to supply physicians’ offices with ready-to-use electronic health record-keeping, managing, and transferring capabilities.317 The USPTO registered multiple marks with “electronic health record,”318 “EMR,”319 or a

318 TRADEMARK ELECTRONIC SEARCH SYSTEM (TESS), U.S. PATENT AND TRADEMARK OFFICE, http://www.uspto.gov/trademarks/index.jsp (follow “Search Marks” hyperlink; then follow “Basic Word Mark Search” hyperlink; then search for “electronic health record”; then follow “Submit Query” hyperlink).
similar phrasing in the title between 2009 and the present, and the USPTO continues to receive an increasing number of patent applications involving an electronic medical record component each month.\footnote{Pat. Application Full Text & Image Database, http://appft1.uspto.gov/netahtml/PTO/search-bool.html (search “electronic medical record”; then follow “Submit Query” hyperlink).}

For example, “EHR Everywhere,” a computer program offering patient information management, storage, and billing resources,\footnote{Clinical, EHR Everywhere, http://ehreverywhere.com/EHR_Clinical.aspx (last visited Apr. 1, 2011).} was created in 2009 and registered at the Copyright Office in 2010.\footnote{U.S. Copyright Off. Public Catalog, http://cocatalog.loc.gov (search for “EHR Everywhere” by “Keyword”; then follow “Begin Search” hyperlink) (last visited Apr. 1, 2011).} 360 EHR, a mark registered with the USPTO by Medaxis Corporation in November 2010, was first used in commerce in 2010, according to filing data.\footnote{Trademark Electronic Search Sys., http://www.uspto.gov/trademarks/index.jsp (follow “Search Marks” hyperlink; then follow “Basic Word Mark Search” hyperlink; then search for “360 EHR”; then follow “Submit Query” hyperlink) (last visited Apr. 1, 2011).} In addition, 360 EHR is identified on the list of certified EHR products, and includes clinical, office management, and billing features.\footnote{Medaxis Products and Services, MEDAXIS, http://www.medaxis.com/ProductsAndServices/360EHR/ (last visited Apr. 1, 2011).} Doctors’ Administrative Solutions, LLC filed a patent application with the USPTO on January 25, 2010 for a “computer-implemented method for tracking of clinical, demographic, financial and service metrics within a physician practice,”\footnote{Pat. Application Full Text & Image Database, http://appft1.uspto.gov/netahtml/PTO/search-bool.html (search “Doctors’ Administrative Solutions”; then follow “Submit Query” hyperlink) (last visited Apr. 1, 2011).} and numerous procedures related to electronic medical records have already obtained a patent.\footnote{Pat. Full Text & Image Database, http://patft.uspto.gov/netahtml/PTO/search-bool.html (search “electronic medical record”; then follow “Submit Query” hyperlink) (last visited Apr. 1, 2011).} The authors submit that the number of EHR vendors benefiting from intellectual property law protection will only increase with the expansion of the EHR market under the HITECH Act.
IV. NAVIGATING THE EHR SOFTWARE LICENSE AGREEMENT

Assuming that the HITECH Act accomplishes its intended goal of motivating health care providers to adopt and implement EHR systems, many providers will be forced to confront certain legal challenges surrounding the adoption of EHR technology for the first time; one such challenge is understanding and negotiating an EHR software license agreement (“SLA”). Providers transitioning from paper health records to an EHR will need an SLA that affords the provider all the rights it needs, and imposes on the EHR software vendor all the obligations necessary to make that transition, without exposing the provider to unnecessary or unreasonable liability. This Section IV will address several issues likely to be faced by providers as they identify a suitable vendor and negotiate the vendor’s SLA.

First, the provider will need to select an EHR software vendor that is willing to work with the provider and the provider’s information technology (“IT”) department (or IT service provider) to assess the provider’s EHR needs and provide an EHR software solution that meets those needs. Virtually every software vendor uses its own form of SLA, which, to no one’s surprise, is drafted in favor of the vendor. It is important for the provider to know upfront how amenable a vendor is to modifying its form SLA to address the provider’s concerns. Some vendors are more willing than others to do that – in fact, certain terms and conditions in a vendor’s form SLA may be non-negotiable due to company policy or other reasons. Therefore, it is imperative for the provider to inquire about these points during the vendor selection process, not after negotiations have commenced.

Once the provider has selected an EHR vendor, the next step will be to negotiate the SLA. The provider will need to consider the following factors when reviewing the vendor’s form SLA. Does the SLA clearly identify all the hardware, software, and related services that the vendor is required to provide to ensure a smooth transition to EHR? Just as importantly, does the SLA clearly specify the provider’s responsibilities in order to accommodate the vendor’s EHR software system? In order to attract business, vendors likely will submit proposals that include representations and assurances about their EHR software that inexplicably do not find their way into the vendor’s form SLA. The best way to ensure that the SLA obligates the vendor to deliver on the representations and assurances made in the proposal is to incorporate the proposal by reference into the SLA, making clear that all such representations and assurances will constitute duties and obligations of the vendor. The provider also will need to ensure that
the SLA includes an acceptance testing procedure for determining whether the EHR software operates in accordance with its specifications and other documentation ("Documentation"). Also, if the software can’t be made to conform to its Documentation during implementation, is the vendor willing to refund all amounts the provider paid upfront for the software?

Next, will the EHR software, and the provider’s health care and other data used in connection with the software, reside on the provider’s own servers or be hosted externally, either on the vendor’s servers or at a third-party hosting facility? External hosting introduces additional issues with respect to data security, integrity and availability, and the accountability of the third-party hosting entity, all of which need to be addressed in the SLA. Furthermore, does the licensed software include software that is owned by an entity other than the EHR software vendor ("Third-Party Software")? All Third-Party Software should be identified as such in the SLA, because the vendor is usually not willing to stand behind Third-Party Software to the same extent as software the vendor owns. In such cases, the provider should require the vendor, at a minimum, to pass through to the provider any and all Third-Party Software warranties that are available.

Managing potential liability exposure is always important for health care providers; this is especially true in connection with transitioning to EHR. As a result, providers should make sure that the SLA includes a liability cap, consequential damages disclaimer, and indemnification provisions that reasonably allocate potential liability under the SLA between the vendor and the provider. Also, it goes without saying that maintaining the confidentiality of patient and other information is a top priority, and potential source of liability, for health care providers, especially with the advent of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and its privacy and security requirements with respect to protected health information ("PHI"). The vendor’s likely access to PHI during EHR software installation and implementation will require execution of a business associate agreement between the provider and the vendor. Moreover, transitioning to EHR also introduces a number of other health information exchange issues, which may need to be addressed within the SLA.

In addition, the vendor should be willing to provide certain representations and warranties with respect to its EHR software that are designed to give the provider a comfort level about the condition of the EHR software as of the effective date, and during the term, of
the SLA. For example, at a minimum, the vendor should represent and warrant the following for each item of EHR software provided to or accessed by the provider: (i) the EHR software and the provider’s use of that software does not and will not infringe or misappropriate the intellectual property rights of any third party; (ii) the EHR software will operate in accordance with its Documentation during the applicable warranty period; and (iii) upon delivery to or access by the provider, the EHR software is free of any viruses or other disabling code that could damage the provider’s computer systems or networks.

The vendor should provide maintenance (software error corrections) and support (software upgrades and enhancements) as part of its EHR software product offering. The vendor should be required to promptly respond to and correct (or provide appropriate workarounds for) software errors that have a material adverse impact on the provider’s use of the software. Providers will need to look for remedies in the form of service credits for any breach by the vendor of its maintenance and support obligations under the agreement. Furthermore, for externally hosted applications, it is important to require a near-100% system availability and ensure that system availability is calculated in a reasonable manner. Providers should be particularly mindful of provisions requiring the provider to implement software upgrades, new releases, and versions made available by the vendor in order to remain eligible to receive maintenance and support. Complying with such requirements may necessitate a costly and unanticipated (and, therefore, non-budgeted) upgrade of the provider’s software systems and related hardware.

As discussed above, in order for providers to qualify for incentives under the EHR Incentive Program, the provider must implement certified EHR technology. Furthermore, separate and distinct from the EHR certification standards, providers must meet all of the applicable meaningful use criteria. To ensure that providers will be able to comply with the meaningful use criteria, the provider will want to make sure that the SLA requires the vendor to maintain certification for its EHR software, and to cooperate with the provider’s efforts to comply with all applicable meaningful use criteria.

Once the EHR software is installed and implemented, it will become one of the provider’s most important assets. Ensuring the ongoing viability of that asset will rely in large part on the effectiveness of the vendor’s maintenance and support services, none of which can be performed without access to the source code of the EHR software. As a result, the SLA should provide a contingency plan, in the form of a source code escrow agreement, in the event that the vendor is unwilling or unable to provide such services. Requiring the vendor to establish and maintain such an agreement with a
reputable source code escrow agent will allow the provider access to the EHR software source code in the event of, for example, the vendor’s insolvency or failure to provide maintenance and support services for any other reason.

Finally, assume the provider makes a one-time, upfront payment for a perpetual license to use the EHR software. What happens if the vendor cannot correct errors in the EHR software or breaches the SLA in a manner that leaves the provider no choice but to terminate the SLA? Shouldn’t the vendor be required to refund some, if not all, of the upfront payment due to the provider’s limited use of the EHR software? Also, it seems only fair that the vendor should be obligated to help the provider quickly transition to another EHR software vendor. Further, shouldn’t the vendor be required to promptly return all confidential information that it received from the provider? These examples highlight the importance of providing for possible termination of the SLA and its aftereffects by including exit strategies within the SLA designed to return the provider to some semblance of normalcy after the SLA terminates.

V. CONCLUSION

While the full effect of the HITECH Act will not be known for several years, the authors contend that the HITECH Act has already served, and will continue to serve, as a powerful motivator for healthcare providers to adopt and implement EHR systems, and for vendors to develop products to meet this new demand. Fundamental to the success of the HITECH Act, however, will be the protections and motivations inherent in United States intellectual property laws. These protections, combined with significant financial incentives available under the HITECH Act, will position our country’s healthcare system to ultimately develop a nationwide interoperable health information technology infrastructure, a crucial element for improving the quality and efficiency of health care in the United States.
NEW AGE ATHLETES AS SOCIAL ENTREPRENEURS: PROPOSING A PHILANTHROPIC PARADIGM SHIFT AND CREATIVE USE OF LIMITED LIABILITY COMPANY JOINT VENTURES

Roger M. Groves†

“If LeBron were an IPO, I’d buy it . . . At 21, I wasn’t remotely as mature as LeBron.”

–Warren Buffet

“I want to . . . do things differently than anyone has ever done them before. Of course, I grew up watching Michael [Jordan] . . . and he set the roadmap. I want to run my own business. I want to be my own business.”

–LeBron James

While professional athletes in this country’s four most popular professional leagues have significant player salaries, this article

† Roger M. Groves is an associate professor at Florida Coastal School of Law, former tax judge, and former equity partner at Howard & Howard, Attorneys PC. Emphatic appreciation is extended to Clarence Sydnor, Jonathan Northington, and Tier Brown for their valuable contributions as research assistants.


2 Id. at 100, 104. The above passages focus on James’ profit making enterprises, but stem from the desire of a young player to take control of his own economic fortunes. This article extends the opportunity to those with the same new age mentality to also take control over his charitable activities, and the not-for-profit entities he can own to accomplish his charitable goals.
focuses on the National Basketball Association (“NBA”). The NBA players are Exhibit A for an unrealized opportunity. They comprise a group of the world’s most talented employees for this particular industry who, by virtue of both wealth and cultural connectivity, have an extraordinary “giving back” impact on urban America. If the vast majority of those players would establish charitable foundations and pool their funds, they could do something unprecedented—they could have transformative effects on entire communities. Such like-minded players can be termed “New Age Athletes.”

I. THE PRE-ENLIGHTENMENT STATUS QUO

The term “New Age Athlete” is a bit of a misnomer because the reference is not just to those who are chronologically new in years on the planet. Each year, rookie players as young as nineteen years old will join an NBA roster and choose to translate their instant multi-million dollar income into a multi-million dollar consumption of goods and services, with little or no capital contributions to charitable causes or the ownership of assets to better the lives of others.

What’s worse is that some of those players have a short-lived career in the NBA, and an even shorter financial plan or post-playing landing spot, en route to a life of despair. Sixty percent of NBA

---

3 The three other major professional leagues are the National Football League, Major League Baseball, and the National Hockey League.

4 This author defines “New Age Athletes” as those professional athletes with the perspective to create their own sophisticated exempt entities, including private foundations, public charities or donor-advised funds to joint venture with other for-profit entities (corporations and limited liability companies) to make major and sustainable improvements in underserved communities. This perspective includes a focus on building assets that generate revenue rather than spending on consumer goods that do not.

5 Ten-year veteran Ray Williams exemplifies the tragic case in point. He was a 1977 NBA top-10 draft pick, compared favorably to the former captain of the New York Knicks, led the team in scoring over his first four years, once scoring fifty-two points, and later signed a three-year $1.5 million contract. See Bob Hohler, Desperate Times: Ex-Celtic Williams, Once a Top Scorer, is Looking for an Assist, THE BOSTON GLOBE (July 2, 2010) http://www.boston.com/sports/basketball/celtics/articles/2010/07/02/desperate_times/ (last visited Mar. 19, 2011). Seven years after his retirement and following several failed financial and employment efforts, Williams filed for bankruptcy. Id. After filing for bankruptcy protection a second time in 1994, he is reportedly homeless, sleeping in a 1992 Buick. Id. He “rests his head on a pillow of tattered towels . . . tunes his boom box to gospel music, closes his eyes, and wonders.” Id. He is now fifty-five years old, a diabetic and unemployed. Id. He has not “fallen prey to drugs, alcohol, or gambling,” but rather a lack of financial wherewithal and training. Id. He retired in 1987 without a college degree or professional skills. Id. He was a substitute teacher, delivered mail,
players are reportedly broke within five years of retirement.\(^6\) As summed up by Danny Schayes, former NBA player turned businessman, “Guys go broke because they surround themselves with people who help them go broke.”\(^7\) Ex-Knick Mark Jackson turned into a successful national television broadcaster once he got rid of a business manager he couldn’t trust. “It turns out the guy was forging Jackson’s signature on checks—an estimated $2.6 million worth—to feed a gambling jones.” Jackson said, “And it wasn’t like I was a rookie. I was a veteran.”\(^8\)

There are examples of this in every other major sport. The National Football League (“NFL”) is one such league with players lacking economic vision and savvy. Within two years of retirement, seventy-eight percent of former NFL players have “gone bankrupt or are under financial stress because of joblessness or divorce.”\(^9\)

Mark and tended bar; he had been a cleaner, handyman, high school girls basketball coach, bakery worker, and golf course groundskeeper. \(\text{id.}\) But Williams “had trouble holding the jobs partly because he had spent his life training for little else but playing basketball. \(\text{id.}\) If he had established a foundation during his decade-long NBA career, perhaps he would have evolved, become involved in ventures with other business persons and nonprofits to build elderly housing units, or counseled low-income youth. Then he may have had a landing spot and a future career off the court. Williams may be financially alone, but not in circumstance.


NBA All-Star Kenny Anderson’s estimated lifetime earnings of $60 million did not prevent him from filing for bankruptcy in October 2005. Dan Le Batard, Former NBA Player Kenny Anderson is Finding Life's Riches After Career, MIAMI HERALD (Apr. 11, 2010), http://www.miamiherald.com/2010/04/11/1573889/finding-lifes-riches.html. Scottie Pippen, a key part of six NBA championships with Michael Jordan and the Chicago Bulls, lost over $27 million through questionable investments and owes over $5 million to the U.S. Bank despite earning over $120 million during his seventeen-year NBA career. \(\text{id.}\) As summed up by Danny Schayes, former NBA player turned businessman, “Guys go broke because they surround themselves with people who help them go broke.” Rick Reilly, Life of Reilly, supra.
Brunell is a three-time Pro Bowl quarterback in the NFL and has a Super Bowl ring from 2009 with the New Orleans Saints. He has made nearly $52 million during his fifteen-year career. But a series of disastrous real estate acquisitions led to his announcement that he will file for bankruptcy. Baseball all-star Jack Clark was thirty-six years old and still playing with the Boston Red Sox when he filed for personal bankruptcy. At that time, Clark had been in the league for eighteen years. He claimed to have assets of almost $4.8 million. But he listed debts of more than $11.4 million, including owing money on seventeen of his eighteen automobiles. Those cars included a 1990 Ferrari that cost $717,000 and three Mercedes Benzes costing him between $103,000 and $143,000. At the time of filing, he owed about $400,000 in federal and state taxes, and lost approximately $1 million in a drag-racing venture. George Best was described as “soccer’s first pop icon.” Compared often to Joe Namath, Best rose from public housing projects in Belfast, Northern Ireland to be the most notable worldwide soccer hero of the working class. Best owned fashion boutiques, hair salons, a travel agency and nightclubs, but had a long history of alcohol abuse. After having a liver transplant at age fifty-six, Best died at age fifty-nine. Though he amassed nearly $100 million during his career, he summed up his financial life on the BBC, stating: “I spent a lot of money on booze [women] and fast cars. The rest I just squandered.”

11 Id.
12 Id.
14 Id.
15 Id.
16 Id.
17 Id.
19 See id.
20 Id.
21 Id.
22 Id.
As the Mark Jackson testimonial reveals, this is not a malady of simple ignorance. Even Joe Gibbs, a Hall of Fame NFL coach and successful businessman in the race car world, admitted that it took him four and a half years to recover financially from his business ventures, despite multi-million dollar contracts of his own spanning several years. Gibbs said, “[A]ll it takes is one mistake . . . signing up for the wrong open-ended venture of some kind, and you would wind up in a mess like [that of Mark Brunell].”

II. THE EMBRYONIC NEW AGE ATHLETIC MOVEMENT

The new perspective for athletes is to use sophisticated private foundations in partnership with other for-profit entities to make major and sustainable improvements in communities from which they come. One such example is a player who is now retired after nearly a decade in the NBA. A testimonial to his status as a New Age Athlete is codified in the State of the Union address in January 2007 by President George W. Bush:

The greatest strength we have is the heroic kindness, courage and self-sacrifice of the American people. You see this spirit often if you know where to look. And tonight we need only look above to the gallery. Dikembe Mutombo grew up in Africa amid great poverty and disease. He came to Georgetown University on a scholarship to study medicine but Coach John Thompson took a look at Dikembe and had a different idea. Dikembe became a star in the NBA and a citizen of the United States. But he never forgot the land of his birth or the duty to share his blessings with others. He built a brand new hospital in his old hometown. A friend has said of this good-hearted man, “Mutombo believes that God has given him this opportunity to do great things. And we are proud to call this son of the Congo a citizen of the United States of America.”

23 See Reilly, Life of Reilly, supra note 5.
A statistical review of current NBA players reveals that many are focused on such charitable projects. NBA teams in the aggregate pay their players a total of over $2 billion per year. The twenty-five highest paid NBA players have a combined salary of over $450 million. That purchasing power would make those twenty-five players the 213th richest nation in the world, not far behind American Samoa.

Many of these top twenty-five players have cultural connectivity with crisis-burdened urban areas, and as such, high-octane potential to be investors, as some already are, in urban projects. An investigative analysis found eighty-nine NBA player charities. Income from endorsements can also be funneled into foundations, which in total can result in significant amounts of pooled assets. LeBron James’ high school graduation gift endorsement from Nike was $90 million and, commencing in 2007, he led the NBA in endorsements with an estimated $25 million in that year alone. His total endorsement package was $170 million. In light of his entrepreneurial perspective, LeBron James is the poster child for the “New Age Athlete.”

While there is no readily available information on the actual percentage of salary donated to charity, if that top twenty-five allocated just .05% of their salaries to their foundations, there would be over $22 million annually, with the potential to be $67 million in three years, before adding any interest or economic return on the invested funds.

The potential is far greater once the entire NBA pool of players is considered. There are approximately 440 players on team rosters.

---

over the course of the season. Of those players, only 130 appeared to have functional foundations from investigations to date. A survey of NBA player foundations indicates that from a total of 433 players, only 43 filed the required IRS Form 990, and only 38% NBA players' foundations met the minimum criteria for what is customarily regarded as qualitative philanthropy, a primary component of which is an analysis of the amount of funding actually devoted to charitable programs, rather than administration.

Hence, there are significant opportunities for some level of charitable giving among those who have, at the very least, a great tax incentive to establish a foundation. As discussed below, therein lies the opportunity to collectively provide a transformative impact of historic proportions on communities in need.

III. THE PHILANTHROPIC OPPORTUNITY

Despite the accumulation of astronomical wealth by professional players, sophisticated philanthropy has no legs without a mentality of humility and service. Benjamin Franklin explained to his mother in a letter why he had devoted so much of his life to public service. He is quoted as saying, “I would rather have it said, ‘He lived usefully,’ than, ‘He died rich.’”

The professional athlete, already rich, may be highly motivated to assist victims of breast cancer if his mother was one. Two facts poignantly point to NBA player foundations as focusing in that area. Approximately 72% of NBA players are African Americans. African-American women are particularly victimized by breast cancer. A recent study concluded that “African-American women ages 35 to 44 have a death rate from breast cancer twice that of white women the same age.” Mothers, grandmothers, siblings and spouses

33 Database compiled from various web-based sources, including the NBA players association website.
34 Id.
39 Id.
may individually or collectively influence those professional athletes, and either they or someone they know has been or likely will be victimized by breast cancer. If that influence group is already involved or will become involved with players’ private foundations, connectivity to such health-focused projects exist for the foundation.

Motherly influence has indeed been reflected in some player foundations. Larry Hughes, a former NBA shooting guard, had an annual salary of $12.8 million and $60 million through 2010. His foundation was established by his mother, with a goal to assist families of organ donors and recipients, specifically children. Jamaal Magloire was a center for the Miami Heat during the 2009-10 season, and had a salary of over $1 million. In 2002, while Magloire played for the Toronto Raptors, his mother inspired the Youth Deserve a Chance to Dream Foundation, designed particularly to assist the youth of Toronto, Canada. The foundation’s goal is to create opportunities to improve the lives of young people by strengthening underfunded local community youth services through donations and fundraisers.

This same influence group may sensitize the player to related issues for African-American women. Infant mortality rates and low birth weights are disproportionately worse among African-Americans. One commonly identified factor is the lack of adequate resources for sufficient prevention, education, and screening. Player foundations may provide the resources, be it through establishing their own clinics or infusing cash into existing governmental or nonprofit organizations.

Similarly, access to qualitative health care insurance is a factor. While overall cancer rates in the United States are declining, African-Americans often lag behind in those gains with their diminished access to private health insurance, and disease detection occurring later, rather than sooner. Foundations may contribute to insurance programs with the charitable purpose of bridging the private insurance

---

44 See Wilson, supra note 38.
45 Id.
46 See id.
gap. As discussed below, such an effort may include joint ventures or other collaborative actions with private for-profit service providers of insurance.

Further, these athletes’ foundations can participate in a myriad of other project types and programs designed specifically for low-income communities, sharing many tax benefits with for-profit joint venturers. A federally sponsored multi-billion dollar tax credit program (New Markets Tax Credits) provides incentives to lure investors into projects designed to revitalize urban communities in America.47 This author has examined the projects that received tax credits and identified some as “properly purposed projects.”48 Such projects include healthcare clinics as well as funds to provide working capital for small minority developers of low income housing. A larger representative list of such projects that received new markets tax credits is listed in Appendix A.49 Several other projects can be aligned with the federal income tax incentives to assist economically distressed areas.50 A New Age Athlete may have a foundation that contributes capital or other resources to existing private-public partnerships to add housing in an area designated for tax breaks as an empowerment zone or enterprise zone.51 This gives the Athlete the ability, through the use of such ventures, to gain tax-exempt financing, non-recognition and exclusion of gross income, bond credits, tax credits, expense deductions, and favorable depreciation rates. The aggregation of those benefits has often been the missing piece that allows the venture to make economic sense—essentially gap financing.52

47 To view the federal authorizing statute, see 26 U.S.C. § 45D (2000); see also Roger Groves, The De-Gentrification of New Markets Tax Credits, 8 FLA. TAX REV. 213 (2007).
48 The term “properly purposed projects” was used to describe the types of projects considered well-designed for the residents of low income core urban communities, as opposed to “problematic purposed projects” that provide new housing and entertainment venues for upper income individuals. See generally Groves, supra note 47. The article advocated closing loopholes in the new markets tax credits law so the credits are only provided for properly purposed projects that assist the low income residents. Currently the credits are allowed for opera houses, convention centers, museums, and high rise condominiums that the low income residents cannot likely afford.
49 See infra Appendix A; see also Groves, supra note 47.
51 See id.
52 See id.
IV. THE JACKSONVILLE, FLORIDA, ILLUSTRATION

In most urban cores where the poor, historically-disenfranchised reside, a common litany of maladies is faced daily that are uncommon to the general US population: infant mortality, diabetes, prostate cancer, and asthma, just to name a few. Jacksonville, Florida is just one of several major cities that falls into this morbidity sink hole and therefore presents a philanthropic opportunity. The city population now approaches one million residents, nearly 30% of which are African-American. While the city of Jacksonville comprises the entirety of Duval County and is the largest city in square miles in the contiguous forty-eight states of this country, it has an overconcentration of African Americans in economically-depressed areas, particularly in north and northwest Jacksonville. Approximately 90% of the tenants of low income public housing provided by the city are African-American. Just over 41% of the African-American residents live on city blocks that are greater than 80% black.

53 See, e.g., Floyd J. Malveaux & Sheryl A. Fletcher-Vincent, Environmental Risk Factors of Childhood Asthma in Urban Centers, 103 ENVTL. HEALTH PERSPECTIVES 59 (1995) (discussing increased asthma morbidity and mortality among African Americans in urban centers).

54 The 2003 estimate from the U.S. Census Bureau was 773,781, with a percentage change from April 1, 2000 to July 1, 2003 of 5.2%. African Americans represent 29.0% of the Jacksonville population according to the 2000 US Census. See U.S. CENSUS BUREAU, STATE AND COUNTY QuickFACTS (2008), available at http://quickfacts.census.gov/qfd/states/12/1235000.html.


56 The United States Justice Department filed suit against the City of Jacksonville and its Housing Authority claiming violations of the federal Fair Housing Act. The Justice Department alleged a “long standing pattern and practice by the City and the Jacksonville Housing Authority of refusing to site public housing anywhere except predominantly black neighborhoods.” See Press Release, U.S. Dep’t of Justice, City of Jacksonville and Its Housing Authority Agree to Build New Public Housing Units to Comply with Fair Housing Act (Oct. 18, 2000), available at http://www.usdoj.gov/opa/pr/2000/October/611cr.htm (announcing a settlement of the lawsuit, where the City agreed to build 225 new public housing units outside of the African American communities, and pay over $380,000 in damages to complainants).

57 See id.

V. INFANT MORTALITY

The infant mortality rate for African-Americans in Jacksonville is 16.2 deaths per 1,000 births.\(^9\) That rate is 122% higher than the white population generally and 20% higher than the rate among African-Americans in Florida as a whole.\(^6\) From a global perspective, the Jacksonville rate among African Americans is slightly better than Lebanon, but worse than the countries of Bahrain, Malaysia, Panama, Jamaica, and Argentina.\(^6\) As stated by the most recent authoritative study regarding Jacksonville infant mortality, African-American infants in Jacksonville are more than twice as likely to die within the first year of life than white babies.\(^6\)

VI. THE ASTHMA EPIDEMIC

One may initially think asthma is not a serious health issue, since heart disease, cancer, and AIDS take far more lives per year.\(^6\) But a recent Jacksonville-area health department study revealed startling statistics about asthma-related morbidity and mortality, starting with the fact that asthma is now the most common chronic illness amongst Jacksonville’s children.\(^6\) The study then notes “remarkable disparities” in asthma deaths between blacks and whites in Jacksonville.\(^6\) The death rates among African Americans were 117% higher than that of whites.\(^6\) Beyond the tragedy of death is the drain on the individuals who survive, and the millions of dollars in health care costs following emergency room visits and overall hospitalization to treat the asthma attack. The disproportionate effect on African-Americans is again striking. In 2005, the hospitalization rate in Jacksonville for asthma was 91.2% higher for blacks than whites, and blacks were over two and a half times more likely to be


\(^{60}\) Karkaria, *supra* note 59.


\(^{62}\) *Too Young to Die; Solutions Offered*, FLA. TIMES-UNION, Aug. 29, 2005, at B-6.


\(^{64}\) Sudhir Prabhu, *Asthma: Control and Prevention*, 6 DUVAL CNTY. HEALTH DEP’T HEALTH POL’Y & EVALUATION RES. INST. 1, 1 (Nov. 2007).

\(^{65}\) Id. at 2.

\(^{66}\) Id. (The study and this statistic covered years 2000-2005).
treated in the emergency room for an attack than whites. The inadequacy of emergency room care is that it “only [treats] the asthma attack, not the long-term problem,” which is often addressed early by primary physicians through preventive care. These points, coupled with the fact that the “numbers of minorities with asthma is increasing exponentially,” led the author of the study to conclude that asthma is a “local epidemic.”

The same study suggests means of ameliorating the epidemic. The primary asthma prevention targets include:

- Decreasing the occurrence of asthma through eliminating the environmental “triggers” (e.g. mold, dust, allergens, bug feces, industrial pollution).
- Increasing access to quality health care.
- Increasing education and community awareness and prevention activism.
- Reducing obesity and low birth weights, both of which are linked as an associated adverse factor.

Dare we have the audacity to hope that some of those professional NBA players with $15-21 million salaries use their respective foundations to bring these curative solutions to reality? To reduce the above environmental triggers, foundations could, for example, be part of a team that engages law firms (or with pro bono efforts of firms) to write letters to landlords to rehabilitate mold-ridden rental units that house asthma suffering residents, or partially subsidize the cost of mold elimination. As to access to quality health care, those without health insurance already have some assistance through the

---

67 Id. at 5.
69 Id.
71 Hannan, supra note 68.
72 Id.
73 Prabhu, supra note 70, at 12.
Duval County Health Department. But that department has found that “grants are difficult to get because every community in the country wants them." The player foundations can be an alternate source for grants, or a collaborative link to governmental sources. In light of the needs described above for Jacksonville, Florida, foundations may infuse capital or contribute to health care plans to increase access by those who are unable to afford commercial insurance.

Since these athletes are already the highest-profile examples of physical exercise, they are uniquely positioned to inspire others to minimize obesity, and thereby assist in reducing the adverse affects of that factor on the incidence of asthma. The player can make appearances at obesity awareness workshops as easily as he can appear at car dealership-sponsored golf tournaments. And his foundation can just as easily co-sponsor or outright fund those events.

The effect of remedial efforts from the player foundations can also reduce the public burden of paying for the inadequacies in asthma-related health care. African American asthma patients in Duval County’s emergency rooms are almost twice as likely to be covered under public sources, i.e. Medicaid, Medicare and KidCare. If player foundations infuse sufficient funds into existing support structures to help these patients receive preventive care opportunities to prevent the attacks, or assist in the purchase of commercial insurance, then the incidence of emergency room visits would decrease, and so would the public costs associated with emergency room visits and hospital care. The potential savings could be significant. In 2005, Duval County costs for asthma related emergency room visits totaled almost $8 million, equating to 7.5% of the state total. Nearly one in five ER asthma-related visits in Duval County were African American children between the ages of five and fourteen, a rate 260% higher than the asthma-related ER visits of whites in Duval County.

These disparities are revealed to show how much progress can be made with a focused attention on those in greatest need. Reducing this disparity can have the desirable effect of saving lives and saving...

74 Hannan, supra note 68.
75 Id.
76 Legislative changes may be required, and proposed laws that add non-governmental entities to the mix to reduce the public burden of health care for low income residents is politically viable.
77 Prabhu, supra note 70, at 12.
79 The actual percentage was 18%. Id. at 5.
dwindling public funds. As discussed below, player foundations can jointly venture with for-profit members of limited liability companies to help achieve these laudable goals. But after the contemplation of laudable projects there remains the task of determining which type of legal vehicles are well-suited for those initiatives. The following sections discuss a creative and atypical type of LLC organizational structure that the IRS has authorized, albeit primarily through private letter rulings, as joint venture vehicles which this author opines are indeed well suited for New Age Athlete projects.

VII. PLANTED PHILANTHROPIC SEEDS AND POOLED ASSETS

Amid negative stories of professional player criminality and tragedy, the positives are obscured, including the significant charitable activities among players through their foundations. In at least a few instances, players have begun to pool their foundation funds for common projects. The Dikembe Mutombo foundation is the gold standard for these projects.

Dikembe Mutombo entered Georgetown University on an academic scholarship, intent on becoming a physician. His motivation was to help fill a health care void in his homeland of the Democratic Republic of the Congo, a void that affected him deeply since his mother died while trying to reach a hospital that was too far away for the medical assistance she needed. While a pre-med major at Georgetown, his 7’2” frame did not go unnoticed by then-Georgetown basketball coach John Thompson. After becoming an All-American at Georgetown, Mutombo then had a near-decade long career in the NBA. In his last years of basketball, and as recently as the 2006-2007 season, he was earning over $2 million annually. Throughout his playing years, he used his earnings to make progress toward his collegiate dream of making a health care difference. Over several years, Mutombo donated over $15 million through his own private foundation to bring to fruition a $29 million project. On December 4, 2007, Mutombo opened a 10-acre, 150-bed hospital in the Democratic Republic of the Congo in memory of his mother—The Biamba Marie

81 Id.
Mutombo Hospital & Research Center. The hospital provides care to the nation’s poorest and helps to train future health professionals.\footnote{See DIKEMBE MUTOMBO FOUND., INC., http://www.dmf.org (last visited June 7, 2010).} The hospital has inpatient beds, outpatient facilities, a research laboratory, and has nearly completed a project to provide the nation with its first state of the art CT scanner, while employing nearly four hundred staff members.\footnote{See generally id.}

This pooling of funds is particularly important if the goal is to have transformative effects on entire communities. Consistent with the model envisioned in this article, Mutombo’s foundation has pooled resources and partnered with other health initiatives like the World Health Organization, the Centers for Disease Control, the Bill Clinton Global Initiative, a tripartite research alliance with the Swiss Tropical Institute, the University of Kinshasa School of Public Health, UNICEF, and continues an ongoing discussion to open a bank with microfinance opportunities for the nation’s developing small business community.\footnote{Id.} In conjunction with the Church of Jesus Christ of Latter-Day Saints, quality well water has been made available for not only the hospital, but also the nearby public school system.\footnote{Id.}

The accomplishments of Mutombo’s foundation may also inspire New Age Athletes to see that enhanced goodwill and positive reputational aids can flow from effectively doing the right thing for the right reasons. Mutombo has received international recognition for his efforts, including honors at the domestic level such as \textit{USA Weekend Magazine}’s "Most Caring Athlete Award," and FOXSports.com’s designation as the most generous athlete in the world.\footnote{See id.} As noted above, the State of the Union address in January 2007 included accolades from President George W. Bush.\footnote{See Transcript of President Bush’s 2007 State of the Union Address, supra note 26; see also State of the Union Address, THE DIKEMBE MUTOMBO FOUND., http://www.dmf.org/videoplayer.php?video=5 (last visited June 7, 2010) (featuring a video clip of the 2007 State of the Union address).} Most recently, in January 2010, Mutombo was recognized as a humanitarian by President Barack Obama and given the John Thompson Jr. Legacy of a Dream Award.\footnote{See Lauren Burgoon, Obama Praises Mutombo as Humanitarian at MLK Award Celebration (Jan. 19, 2010), http://www.georgetown.edu/story/1242662901514.html (last visited Mar. 19, 2011).}

Another active foundation with pooled fund activity was established by Dirk Nowitzki, a perennial star with the Dallas
Mavericks. He has a salary of over $15 million annually, with certain incentives, and a guaranteed $60 million over the next three years. His foundation focuses on improving the health of children globally and has received significant donations from the Dikembe Mutombo Foundation, as well as the Make a Wish Foundation.

**VIII. PRIMARY PHILANTHROPIC TAX VEHICLES**

There are three primary types of charitable organizations that a socially-conscious professional athlete might consider to house and distribute charitable funds. Sophisticated donors may funnel contributions through public charities, private foundations, or the more obscured new category—donor advised funds. The vehicle choice is likely made based on the weighting of primarily four factors: donor control, deductibility, distribution penalties, and excise taxes. If the major donor emphatically wishes to control the recipients of the gift,

---


92 Public charities and private foundations have the same root qualification. Both can gain exemption from federal income tax by meeting three primary criteria under § 501(c)(3): (1) Being organized exclusively for charitable, educational, religious, or scientific purposes, (2) no part of the net earnings benefit any private shareholder or individual, and (3) no substantial part of its activities involves lobbying for legislation or on behalf of a candidate for public office. I.R.C. § 501(c)(3) (2006). The principal distinction between them is that the funding sources for public charities requires a receipt of more than one-third of its support each year from “gifts, grants, membership fees,” and less than one-third of its support from investment income. I.R.C. § 509(a)(2) (2006). Major philanthropists typically donate their own funds, and develop investment income, rather than raising funds primarily through solicitations from the general public. Athlete foundations typically use their own funds and have higher percentages of investment income than the amount allowed for public charity status. The donor-advised funds are organizations true to their entitlement. The donor can only advise how the funds will be used, which essentially means a recommend-only position. The New Age Athlete, and even current players, direct the use of primarily their own funds and therefore prefer to veto rather than merely advise to a separate decision-maker.

93 *See* Victoria B. Bjorklund, *Current Devs. in Giving to Donor-Advised Funds Supporting Orgs. and Private Founds.*, SM089 ALI-ABA 93, 116 (2007) (providing additional details of these factors).
the private foundation is widely regarded as the preferred vehicle.\textsuperscript{94} A private foundation is a not-for-profit entity that must first qualify as exempt from federal taxation under Section 501(c)(3) of the Internal Revenue Code.\textsuperscript{95} Thus, the private foundation is regarded here as the vehicle of first opportunity. There are some tax advantages to public charities, but professional athletes may find it difficult to qualify for that status.\textsuperscript{96}

X. SECTION 4944 AND JOINT VENTURE OPPORTUNITIES WITH FOR-PROFIT ENTITIES

Based on the above analysis, the New Age Athlete establishes a private foundation for major difference-making in properly purposed projects. However, the player’s foundation is not likely to achieve these large scale benefits as a stand-alone entity. It is more likely that joint venturing with other entities, even for-profit entities, is required. Section 4944 of the Internal Revenue Code is an obscurely helpful authority for reaching the limits of joint venture opportunities with private, for-profit entities. Section 4944 and its attendant regulations as enabling authority are intended as a penalty and prohibition against activities that jeopardize exempt status.\textsuperscript{97} In fact, by overtly determining which activities jeopardize tax exempt status, the IRS also provides guidance as to what activities do not jeopardize exempt status. Particularly relevant to this article is the use of joint ventures, and investments made by tax exempt entities into for-profit entities.

XI. WAKING UP TO INVESTMENTS IN PROFITABLE ENTITIES

Once the type of charitable entity is selected, which for these athletes is often a private foundation, the next issue is what types of activities are advisable. Consistent with a difference-making approach of New Age Athletes through pooling of funds is the concept that a private foundation can have a portfolio of investments. With the rare exceptions noted above, NBA player foundations examined to date have yet to pool their funds or develop a portfolio of investments. To

\textsuperscript{94} See \textit{id}. The primary reason is because athletes’ foundations typically receive over one third of their support from private sources, e.g. investment income or contributions from other than the general public, and as such qualify as private foundations but are disqualified from public charity status.

\textsuperscript{95} I.R.C. § 509 (2006).

\textsuperscript{96} Id.

\textsuperscript{97} Section 4944 provides for penalties when a private foundation “invests any amount in such a manner as to jeopardize the carrying out of any of its exempt purposes.” I.R.C. § 4944 (2006).
have a major impact on communities, pooling of funds may be necessary to amass the amount of capital required. But even if funds are pooled, investments may need to be placed in more than one area since the magnitude of the problem is so great and accumulated over the decades. If, for example, the athletes chose to help the city of Jacksonville, Florida improve health care in its needy north side, the investments could involve a new community clinic specializing in the infant mortality and asthma issues faced most acutely, and a separate investment in existing nonprofit organizations that also contribute to solving these problems. Yet another investment may be necessary for providing capital to service providers (nurses and technicians), and still another investment that may be necessary is an equity capital fund for small businesses, designed to assist that same community (e.g., providers of durable medical equipment for infants and asthmatics). Through greater use of portfolio investments, the New Age Athlete can enhance the effectiveness of his private foundation in achieving socially entrepreneurial goals. As discussed below, however, portfolio investments by private foundations must be carefully orchestrated, since certain investments may subject the foundation to high excise taxes or even a loss of exempt status.

XII. PROGRAM-RELATED INVESTMENTS VERSUS JEOPARDIZING INVESTMENTS

Section 4944 of the Internal Revenue Code imposes excise taxes when a private foundation “invests any amount in such a manner as to jeopardize the carrying out of any of its exempt purposes . . . .”98 Those taxes can be substantial and a very clear deterrent to any questionable investment. The tax can be imposed on both the foundation and separately by any and all managers of the foundation.99 The amount of the tax is two-tiered: an initial 10% of an investment that jeopardizes the exempt purposes is imposed on both the foundation and the manager(s);100 a second tax is imposed if the investment is not removed from jeopardy within the taxable year.101 That second tier tax is 25% on the foundation, and 5% on the manager(s).102 In essence, Congress is so concerned about the

98 Id.
99 Id. § 4944(a)-(b).
100 Id. § 4944(a)(1)(2).
101 Id. § 4944 (b).
102 Id. § 4944 (b)(1)(2). Managers have an additional concern because they are joint and severally liable under I.R.C. § 4944(d)(1). If there are two managers and only one of them suggested the jeopardizing investment, the second manager would be equally liable though she was not directly responsible for making the investment.
potential abuse of exempt entities investing in potentially for-profit ventures that it will impose these substantial penalties even without causing a loss of exempt status. The concern is apparently increasing currently. Until 2006, the first tier taxes were only 5% of the amount invested. 103

The adverse consequences for investing without carefully navigating the minefield of investments cannot be overstated. It bears repeating that these jeopardy excise taxes are imposed each tax year. So there is sufficient incentive for the foundation to quickly divest itself of any such investments or pay a heavy consequence. Of course, the conundrum exists that if the foundation truly believes in its investment, and chooses to invest despite the penalties, the consequences can be severe if there is a long deliberative process by the IRS, or if the foundation seeks to appeal IRS rulings and litigation is protracted. Also noteworthy is the fact that private foundations are subject to other excise taxes beyond the jeopardizing investments. Sections 4940 through 4945, along with a daunting array of companion regulations are even greater cause for very careful analysis before a foundation invests in for-profit ventures. 104 A comprehensive chart of the various types of excise taxes, the amount of tax, and upon

The only saving grace is that the manager liability is capped at $10,000 for the first tier tax, and $20,000 for the second tier tax. I.R.C. § 4944(d)(2).

103 The current taxes were imposed through Pub. L. No. 109-280, Title XII, § 1212(d) (2006).

104 There is a tax on the private foundation’s net investment income (the amount that gross income plus capital gain net income exceeds certain deductions). I.R.C. § 4940(c). There is a tax on each act of self-dealing between foundation manager(s) or other certain other foundation contributors and the private foundation. I.R.C. § 4941(a)(1)(2). There is a tax when the private foundation fails to distribute certain types of its income within certain periods (i.e. “undistributed income” is taxed, but excluded from that amount are certain qualifying distributions so only amounts in excess of qualifying distributions are taxed as undistributed income). I.R.C. § 4942(a)-(e). There is also an excise tax on “excess business holdings” (i.e., where a private foundation has stock or other interest in a business enterprise beyond certain permitted amounts). I.R.C. § 4943(a)(c). Generally, the foundation can own up to 20% of the voting stock of a corporation, subject to reduction based on the amount of voting stock owned by substantial contributors to the foundation. I.R.C. § 4943(c)(2)(A). Finally, the private foundation is taxed for each amount spent to carry on propaganda, influence a specific public election, or allow certain travel or grants to organizations that do not qualify as primarily operating with exempt purposes. I.R.C. § 4945(a)-(h). Each of these excise taxes imposes the two-tiered approach where an initial tax is followed by an additional tax if the investment continues without correcting whatever conditions gave rise to the tax. The most severe consequence among the excise taxes is for excess business holdings—200% of such holdings as the second tier tax. I.R.C. § 4943(b).
whom the tax is imposed is appended as Appendix B. The investment decision, therefore, is a high risk game.

An exception to the jeopardy excise tax exists for what are called program-related investments ("PRI’s"). An investment will not be considered a jeopardizing investment if it meets two criteria: (1) the “primary” purpose is to accomplish its exempt purposes, and (2) no “significant” purpose of the investment is for production of income or appreciation of property.

Investments significantly related to the foundation’s exempt purpose are program-related, and thus not in jeopardy of losing exempt status or having the excise taxes applied. Conversely, investments made primarily for the production of income or property appreciation are subject to those excise taxes. Obviously then, the question remains: what factors determine whether the primary purpose of the investment is for exempt purposes rather than income production or property appreciation? As described below, there is ample authority for the conclusion that a private foundation composed of professional athletes can be a member in a limited liability company with for-profit members and still have a primarily exempt purpose (without losing exempt status and without being subject to excise taxes due to jeopardizing investments).

XIII. PROPERLY PURPOSED INVESTMENTS AS PRI’S FOR THE NEW AGE ATHLETE AND THE CREATIVE USE OF LLCS

The IRS has already provided guidance to private foundations on portfolio development, albeit through obscure sources. The vehicle necessary is a creative joint venture with for-profit entities and non-exempt individuals through a limited liability company. In Private Letter Ruling 200610020, the IRS was asked to rule on whether a private foundation could invest in an LLC with other non-exempt members without jeopardizing its exempt status and/or being subject to the excise tax under Section 4944. Stated in the affirmative, the entity sought the IRS endorsement of the investments as program-related investments (PRI’s).

The private foundation proposed an organizational structure whereby the members of the LLC invest (via capital contributions)
into a common fund (“the Fund”). The members would include the foundation, composed of individual professional athletes, and for-profit entities. The Fund is designed to invest in businesses in low-income communities owned by minorities or other disadvantaged groups who have lacked access to conventional financing on reasonable terms. The overall intent is to enhance the economic well-being of those communities. An additional mission of the LLC is to educate individual LLC members on entrepreneurship and financing. The Fund will make qualified investments into “Portfolio Companies” (i.e., the target businesses in low-income communities).

In order to qualify as a PRI, and to avoid a jeopardizing investment, excise taxes, or exemption loss, the LLC must comply with the two-pronged requirements noted above (primary charitable purpose and no significant purpose for income production or property appreciation). The IRS concluded there was a primary charitable and educational purpose because there was a sufficient nexus between the recipients of the investment (the Portfolio Companies) and the charitable purpose (improving the economic well-being of low-income communities). The nexus was evidenced by (1) having the Portfolio Companies actually operate in the target communities, (2) those companies being part of the pool of those denied conventional financing, and (3) those companies selected were based on the ability to fill community needs. The educational program was further evidence of the charitable purpose, since individual LLC members must participate in that activity; this included training on how to evaluate business opportunities, the principles of angel investing, and a process to give them practical business experience.

The IRS also found that the LLC investment was not made for income production or property appreciation. Deriving factors from its regulations, the IRS stated that the non-income purposes were evidenced by the following: (1) private investors investing solely for profit would not likely make the same LLC investment on the same

---

109 Individual members also include former athletes, coaches or managers of a professional sports team. *Id.*

110 The Portfolio Companies would start in a designated metropolitan area. At least 67% of the individuals in the business must be a member of a group that has been traditionally denied access to equity funding or credit due to gender, minority or low-income status. *Id.*

111 Technically a third requirement is that the exempt entity not engage in propaganda and legislative efforts. I.R.C. § 501(c)(3) (2006). That was not an issue in I.R.S. Private Letter Ruling 2006-10-020. See *id.*


114 *Id.*
terms as the LLC,\textsuperscript{115} (2) the LLC members expected a lower return on their investment than private sector investors (angel investors) due to the risky nature of the Fund’s investment criteria in low-income communities without conventional financing, and (3) the foundation is authorized through the LLC’s Operating Agreement to assure that the Fund’s activities remain charitable. This latter power in the foundation included the ability to veto any non-charitable investment objectives, liquidate any non-charitable investment, redeem any Fund investment that jeopardized the foundation’s status as a PRI, or alternatively cap its investment return.\textsuperscript{116}

There are several other private letter rulings consistent with the ruling mentioned above. The IRS found a PRI for a private foundation’s investment in a for-profit corporation that was a financial intermediary for the foundation’s mission of supporting biodiversity and environmental sustainability. The for-profit corporation’s own investment was also a PRI because it furthered the accomplishment of the foundation’s exempt purpose.\textsuperscript{117} The IRS also endorsed as a PRI the foundation’s ownership of stock in for-profit businesses.\textsuperscript{118} The foundation’s mission was to create jobs for the unemployed and underemployed, and alleviate economic depression.\textsuperscript{119} The businesses selected by the foundation operated in an area designated as a priority development region due to high unemployment rates.

The Regulations also authorize PRI treatment of a foundation’s capital contributions if conventional financing is not available, but depend on the foundation’s funds to fill in the gap for the amount of equity capital necessary to make the loan.\textsuperscript{120} This is acceptable even when the private foundation purchases the common stock of a for-profit corporation, even if that stock appreciates in value and the foundation profits thereby.\textsuperscript{121}

In each circumstance, the IRS approved the private foundation’s joint venturing with for-profit entities such as LLCs, corporations, and private individuals. In each instance, the

\begin{itemize}
\item \textsuperscript{115} The Private Letter Ruling actually only states “investors” would not likely make the investment on the same terms as the foundation. This author presumes the IRS meant non-exempt investors since it referred to them as those who would invest “solely for profit.”
\item \textsuperscript{116} I.R.S. Priv. Ltr. Rul. 2006-10-020 (Mar. 10, 2006).
\item \textsuperscript{117} I.R.S. Priv. Ltr. Rul. 2001-36-026 (June 11, 2001).
\item \textsuperscript{118} I.R.S. Priv. Ltr. Rul. 1999-43-044 (July 26, 1999).
\item \textsuperscript{119} Id.
\item \textsuperscript{120} 26 C.F.R. § 53.4944-3(b). This was example (3) of (10) that the IRS provides as guidance for what are will be deemed adequate circumstances for PLI treatment.
\item \textsuperscript{121} Id.
\end{itemize}
foundations were allowed to invest their own funds jointly with funds of for-profit entities, even if the LLC or corporation in which they both contributed funds was a for-profit business. And saliently, the IRS allowed PRI status for the foundation’s investments as long as their funds were used in furtherance of the foundation’s exempt purposes and the governing documents for the LLC or corporation provided oversight by the foundation that the funds shall be used for those exempt purposes.

XIV. APPLICATION TO THE NEW AGE ATHLETE

If, for example, a professional athlete or a group of athletes wanted to have transformative effects on the health care issues facing those in acute need in the city of Jacksonville, the IRS has endorsed sophisticated joint ventures through the players’ respective foundations. Certainly, individualized efforts can occur without these joint ventures. A single player could make a simple contribution from his foundation to targeted individuals. Or a player could infuse funds into targeted nonprofit organizations that, in turn, allocate resources to those targeted individuals. But, if the mission is to provide real and sustainable solutions, such big issues take big resource allocations. As noted above, the Jacksonville issues of infant mortality and asthma are pervasive among a community of nearly a quarter million people.122 These maladies have causes that are complex and long-developing in genetics, environment, class, and race. Dissolving the health care disparity, in this author’s view, is therefore not likely solved by governmental subsidies alone, nor by nonprofit organizations alone, which are often already under-resourced.123 The private sector has a role to play, and these athletes have a propitious opportunity to make large contributions as part of, and in connection with, the governmental and third sectors.

There are also existing major corporations available as joint venture partners from the private sector. Indeed, a few of the newly-

122 See supra text accompanying notes 64–74.
123 See Roger M. Groves, More Private Equity, Less Government Subsidy, and More Tax Efficiency in Urban Revitalization: Modeling Profitable Philanthropy and Investment Incentives, 8 FLA. ST. U. BUS. REV. 93, 95–97 (2009). As a matter of tax policy, the incentives provided by the government should be better designed to reduce governmental dependence, and market-based benefits further that goal. This can be accomplished by increasing the private sector contribution to charitable projects for our society’s most needy, which are currently dominated by governmental programs. The premise of the article is that the preferred method of increasing investor participation in charitable projects is to increase the amount of investment return rather than tax deductions, and increased private equity participation should reduce the need for governmental subsidies.
established private sector initiatives seeking to provide assistance in
disadvantaged areas include major corporate enterprises. The
Goldman Sachs Group, Inc. funded its own foundation in 1999 with a
$200 million donation. Grants have been awarded in excess of
$114 million since its inception. January 2010 initiatives were
created specifically to “deploy the firm’s capital to help transform
distressed communities into sustainable and vibrant neighborhoods of
choice and opportunity.” The most recent projects may well be part
of its larger effort to reestablish itself as a good corporate citizen after
the recent economic crisis. The value of that intangible asset of
goodwill, like many assets, is more appreciated when it is lost. As
snarkily stated by one of the most highly visible business journals,
“Without Goldman, there wouldn’t be a Wall Street for the public to
hate.” If Goldman Sachs is dedicating its own capital for urban
projects to improve its goodwill, who better to partner with than
foundations of professional athletes that carry considerable cache in
those same urban communities?

Private Letter Ruling 200610020 allows a model for joint
ventures in an LLC between an exempt player foundation and a non-

---

124 Goldman Sachs Corporate Engagement, http://www2.goldmansachs.com/
127 Goldman Sachs Group, Inc., along with Morgan Stanley and JPMorgan
Chase & Co, received a toxically controversial $12.9 billion of taxpayer dollars as a
government bailout under the TARP. See Paritosh Bansal, Goldman’s Share of AIG
Bailout Money Draws Fire, REUTERS (Mar. 18, 2009), http://www.reuters.com/article/idUSTRE52H0B520090318. It was made potentially
worse by the press announcements that the bank “set aside about $16.7 billion for
compensation—on track to pay each of its 31,700 employees close to $700,000
[during 2009]” and executives were looking forward to multi-million dollar paydays.
DealBook, Bonuses Put Goldman in Public Relations Bind, N.Y. TIMES (Oct. 16,
public-relations-bind. Goldman paid back the borrowed funds by June 2009.
CitiGroup, which received $45 billion, was clearly nervous about being among the
last of the big banks to pay back TARP funds. At the writing of this article,
CitiGroup CEO Vikram Pandit stated the company was “focused on repaying [the
remaining $20 billion] TARP as soon as possible.” Bradley Keoun, Citi Pushes For
TARP Payback, BLOOMBERG BUSINESSWEEK (Dec. 8, 2009),
http://www.businessweek.com/bwdaily/dnflash/content/dec2009/db2009128_44486
3.htm.
128 David Reilly, JPMorgan’s Biggest Asset May be Goldman, BLOOMBERG
BUSINESSWEEK, (Dec. 4, 2009), http://www.businessweek.com/bwdaily/dnflash/
content/dec2009/db2009124_691950.htm.
exempt private sector corporate entity. This hypothetical foundation would be composed of several professional athletes. In the Jacksonville circumstance, those athletes could be current or former players for the Jacksonville Jaguars, those who were raised in Jacksonville, those with any other basis of affinity with the city, or those who self-identify with the low-income target community. The foundation would be just one member of a for-profit LLC. Other members would be for-profit entities or individuals, which could include corporations that have local business activity, historically or as part of its growth model.

All the members would then make capital contributions into a fund. The fund would be the principal asset of a for-profit LLC, and the vast majority of that fund would then be used for the Jacksonville health care initiative. As in PRI 200610020, 15% of the funds would be used to pay the expenses of operation, including educational programs. In Private Letter Ruling 200610020, technical assistance and training through educational programs were provided to the fund recipient entrepreneurs who lacked access to conventional financing due to the high risk nature of ventures within the low-income community. Educational programs were also available as funding options for athlete members who sought active involvement in the programs. For the Jacksonville initiative, the educational programs would assist those providing health care assistance in Jacksonville. Further, the athlete members could receive training in how to evaluate health care services and preferred investment methods to be value-added in meeting charitable goals.

One significant benefit to the New Age Athlete is that effective use of foundations during their playing days can help them transition into careers after their on-field career has ended. In the Jacksonville example, the player foundation members may envision a transition into owning and/or operating stand alone health clinics within the target community, subsidiary out-patient clinics, or wings of existing hospital facilities. Nurses, nurse assistants, and lab technicians in these entities, who have cultural connectivity with the target residents,
could be employed or trained to provide pre-natal care to reduce infant mortality or reduce asthma. If the athletes use foundations during their playing days, while they are highly visible, they can maximize their goodwill with their team, and presumably increase their bargaining power for upcoming contracts. That visibility also increases their bargaining power to negotiate favorable terms for a corporate rate joint venture while the intangible asset of a brand name is most valuable. Once the athlete’s playing career is over, or even during the end of his or her career, this bargaining power could likely be decreased and make the transition to other industries more difficult.

The LLC is particularly well-suited for joint ventures because of their statutory flexibility in management and profit distribution. Unlike the typical C corporation, the LLC determines whether to manage itself through a single manager or through members as managers.132 These managers need not possess any particular amount of ownership interest.133 Following the private letter rulings and regulations, a foundation must have primary authority to assure the invested amounts by members into the fund shall be distributed consistent with the charitable and educational purposes of the foundation.134 Under LLC statutes, the foundation can be the LLC manager without having to force its corporate members to give up majority ownership interests in the LLC. Regarding distributions, the LLC operating agreement may govern the allocation of profits among members, even if that allocation is different from a corporate dollar-per-share distribution based on respective ownership interests.135 That flexibility would allow the foundation and the for-profit members to adjust their respective profits to meet the complex requirements of the

132 See, e.g., DEL. CODE ANN. tit. 6 § 18-404 (2005) (“A limited liability company agreement may provide for classes or groups of managers having such relative rights, powers, and duties as the limited liability company agreement may provide . . . .”).

133 See, e.g., DEL. CODE ANN. tit. 6 § 18-402 (2005) (“Unless otherwise provided in a limited liability company agreement, the management of a limited liability company shall be vested in its members in proportion to the then current percentage or other interest of members in the profits of the limited liability company owned by all of the members.”).


135 See, e.g., DEL. CODE ANN. tit. 6 § 18-1101 (2005) (“to give the maximum effect to the principle of freedom of contract and to the enforceability of [LLC] agreements”); Elf Atochem N. Am., Inc. v. Jaffari, 727 A.2d 286, 292 (Del. 1999) (“. . . commentators observe that only where the agreement is inconsistent with the mandatory statutory provisions will the members’ agreement be invalidated.”). Thus, there is no statutory mandate that LLCs divide their profits in exact accord with the ownership interests of the members.
excise tax statutes and regulations in order to retain PRL status for the foundation’s investment and the LLC distributions.\textsuperscript{136}

XV. CONCLUSION

NBA players have a propitious opportunity to do something unprecedented. They may now pool funds through their respective private foundations, and use these pooled funds to create transformative effects on entire communities in need. Jacksonville, Florida is just one of many large urban communities that could be the beneficiary of such targeted efforts. Through its regulations and private letter rulings, the IRS has now provided reliable and consistent guidance for the type of joint ventures-through-LLCs that are well designed to pursue those goals. To reapply a worn cliché—the ball is in their court.

\textsuperscript{136} As Attachment B reveals, there are four excise tax statutes to consider. Retaining in the LLC too large an amount of undistributed funds, for example, could trigger excise taxes of very significant tax liability.
APPENDIX A
Properly Purposed Projects

§ — Community healthcare centers

§ — Small Business Development funds and Nontraditional financing to support businesses located in low income areas

§ — Child care, Head Start and other non-profit facilities

§ — Real estate financing to small businesses, non-profit community centers, day care centers, charter schools, food distributors, health and social service centers . . .

§ — Projects … designed to be more affordable to end users, so that businesses can remain in the low income communities

§ — Facilities - enhance access for charter schools in distressed areas

§ — Economic development to Hispanic Latino communities… originate debt investments in . . . nonprofit community organizations.

§ — Working capital loans to community based housing developers, and operators of community facilities, . . . and senior centers
APPENDIX B

ARRAY OF POTENTIAL EXCISE TAXES FOR A PRIVATE FOUNDATION ON ITS INVESTMENTS

<table>
<thead>
<tr>
<th>TYPE</th>
<th>1&lt;sup&gt;ST&lt;/sup&gt; TIER Calculation</th>
<th>2&lt;sup&gt;ND&lt;/sup&gt; TIER Calculation</th>
<th>MANAGER JOINT &amp; SEVERABLE?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Investment Income (§ 4940)</td>
<td>Gross Investment + Capital Gain – Deductions x 2%</td>
<td>None</td>
<td>No</td>
</tr>
<tr>
<td>Self-Dealing (§ 4941)</td>
<td>10% on Self-Dealer 5% on Manager (20K cap)</td>
<td>200% on Self Dealer 50% on Manager (20K cap)</td>
<td>No</td>
</tr>
<tr>
<td>Undistributed Income (§ 4942)</td>
<td>30% of undistributed amount</td>
<td>100% of undistributed amount</td>
<td>No</td>
</tr>
<tr>
<td>Excess Business Holdings (§ 4943)</td>
<td>10% of excess holdings</td>
<td>200% of excess holdings</td>
<td>No</td>
</tr>
<tr>
<td>Jeopardizing Investments (§ 4944)</td>
<td>10% on Foundation 10% on Manager (10K cap)</td>
<td>20% on Foundation 5% on Manager (20K cap)</td>
<td>Yes</td>
</tr>
<tr>
<td>Taxable Expenditures (propaganda, etc.) (§ 4945)</td>
<td>20% on Foundation 5% on Manager (10K cap)</td>
<td>100% on Foundation 50% on Manager (20K cap)</td>
<td>Yes</td>
</tr>
</tbody>
</table>
I. A CALL TO ARMS: IN SEARCH OF A GRAND STRATEGY FOR THE AMERICAN FUTURE

Grand strategy, a concept studied both in business management as well as statecraft, refers to the overall distribution of the entirety of an organization’s resources toward an overarching objective. For nation-states, grand strategy attempts to make sense of the seemingly random variables that drive global politics by bringing them to life, giving them a meaning that transcends any mechanical analysis of the data. At the same time, however, it attempts to do so in a way that realistically reflects the limited nature of the resources at hand.

As one of the seminal thinkers of international relations – Carl von Clausewitz – saw it, in the most fundamental sense, grand strategy requires both intuition and imagination; it requires the ability to perceive, in a holistic sense, the essence of a given problem by piercing the many layers that comprise it. Indeed, “Clausewitz called
[this type of visionary thinking] the coup d’oeil: an integration of experience, observation, and imagination that ‘constructs a whole of the fragments that the eye can see.’”

In this sense, grand strategy takes on an almost literary quality as it attempts to provide a narrative that will resonate with, and mobilize, a country’s population.

The United States is in desperate need of such farsighted leadership. This country is in the midst of an identity crisis, having struggled to define itself since the end of the Cold War. As the world’s lone superpower, the United States has learned the hard way that along with its strong standing comes immense responsibility in terms of leading efforts to eliminate climate change, nonproliferation, and global poverty. Recent developments in international affairs, sustained economic woes, and partisan gridlock have divided the nation’s attention and resources. Lawmakers are currently playing whack-a-mole with America’s priorities, lacking both the vision and direction needed to combat the long-term challenges that await.

However, all is not lost. Despite increasing (and oftentimes overblown) fears of “American decline,” the United States remains the world’s top dog in terms of economic and military power. What these fears reflect, however, is the very real sentiment that the United States can no longer sustain itself as the head of a purely unipolar world. Economies in emerging markets such as China, India, and Brazil have shaken off their lethargy and are growing in a manner which suggests a global realignment of wealth is beginning to take place, shifting from West to East and from North to South. Because

---

5 Id.
6 Id. at 5 (“Perhaps most profoundly through literary lenses, ‘America’ as a new idea for the world revealed layers of meaning, mainly in a democratic direction, for the project of constructing a modern international system.”).
7 See ROBERT D. KAPLAN, MONSOON: THE INDIAN OCEAN AND THE FUTURE OF AMERICAN POWER 143 (2010) (“Because it is the world’s greatest power, the United States must be seen to take the lead in the struggle against global warming or suffer the fate of being blamed for it.”).
8 See Matthew Weaver, Barack Obama Facing Two Years of Political Gridlock, GUARDIAN.CO.UK, Nov. 5, 2010, available at 2010 WLNR 22055371 (discussing the partisan gridlock facing the country over the next two years).
9 See Fareed Zakaria, Are America’s Best Days Behind Us?, TIME (Mar. 3, 2011), http://www.time.com/time/nation/article/0,8599,2056610,00.html (“Yes, the U.S. remains the world’s largest economy, and we have the largest military by far, the most dynamic technology companies and a highly entrepreneurial climate.”).
10 See KISSINGER, supra note 3, at 809–10 (“[V]ast global forces are at work that, over the course of time, will render the United States less exceptional, . . . Americans should not view this as a humbling of America or as a symptom of national decline.”).
11 RAGHAV BAHL, SUPERPOWER?: THE AMAZING RACE BETWEEN CHINA’S HARE
this new wealth begets power, it is clear that the United States will face increasing competition in the coming decades.\textsuperscript{12}

This is a departure point in American history. Increasingly burdened by the prosecution of two wars, a historic financial crisis, and ever-mounting interest on the national debt, the United States faces deep and painful cuts in spending in order to restore its fiscal health.\textsuperscript{13} Yet American politicians must take care not to sacrifice long-term programs in pursuit of short-term political gains. It is said that the most dangerous animal in the woods is the wounded one; as the U.S. begins to recapture its economic momentum, it will be poised to make radical changes in terms of aligning the nation’s policy objectives.

President Obama presented a vision of “Winning the Future” in his 2011 State of the Union address, offering a feel-good story that was ultimately short on detail and made vague calls for investment in high-speed rail and clean energy.\textsuperscript{14} As the United States emerges from this economic crisis, it should not fall back on piecemeal measures and disjointed policies. This is a time for a fundamental realignment of American resources toward a defined and overarching national objective.\textsuperscript{15} The crafting of a grand strategy for the United States will require radical thought and near-panoramic insight. This Comment seeks to offer a glimpse of what such a grand strategy could look like, drawing on the strengths of the American model to fundamentally reshape the way the U.S. produces, supports, and defends its way of life.

In short, this Comment advocates an Apollo Program-type mentality in terms of “greening” American society from the top

\textsuperscript{12} See Kissinger, supra note 3, at 809 (“The United States will likely have the world’s most powerful economy well into the next century. Yet wealth will become more widely spread, as will the technology for generating wealth. The United States will face economic competition of a kind it never experienced during the Cold War.”).


\textsuperscript{15} See Kissinger, supra note 3, at 718 (“Segmented into a series of individual, and at times isolated, initiatives geared to highly specific problems, American foreign policy is rarely approached from the point of view of an overall concept. . . . It takes an unusually strong and determined president . . . to break this pattern.”).
down—beginning with the military—in order to break the country’s addiction to fossil fuels. In embracing a broad-based “green” strategy, the United States can weave together a number of priorities heretofore thought irreconcilable: national security, environmental protection, and economic growth. In defining a clear “enemy”—our dependence on fossil fuels—the U.S. can unite various segments of society around a value-neutral and universally beneficial policy objective. By calling upon the resources of academia, the military, and the business community, the government can harness the institutions in which America has traditionally had the most palpable innovative advantages. By becoming the international leader in green technology invention, production, and deployment, the United States can help ameliorate the effects of its last industrial revolution while triggering a new one in the process.

Disagreement exists as to whether the U.S. should be run more akin to a business. Regardless of whether it is governed as a corporation or as a state, America direly needs to redefine its brand. “Going Green” should be more than just a slogan—it should be a national business model. Implementing a grand strategy of this magnitude will require confronting institutional biases across multiple levels of governance, and this President utilizing the bully pulpit to continue framing the debate. Such an undertaking will not come without its difficulties, as overcoming orthodoxy demands not only intellectual rigor but unshakable political courage. The United States cannot view the goals of military superiority, environmental protection, and economic growth as mutually exclusive any longer. Indeed, as F. Scott Fitzgerald put it, “The test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at the same time and still retain the ability to function.”

---


17 KISSINGER, supra note 3, at 741 (“All great departures in American foreign policy have resulted from strong presidents interacting with America’s other institutions. The president serves as the educator whose moral vision provides the framework for the debate.”).

18 HILL, supra note 2, at 3.
sentiment in mind, the engine that will drive American business growth in the coming decades must, by design, be a hybrid one.

II. FRAMING THE PROBLEM: AMERICA’S ADDICTION TO FOSSIL FUELS

Any mention of “green technology” inevitably invokes thoughts and discussion about climate change. As of late, however, these discussions have become increasingly uncivil as climate change has become a lightning rod for many in the political sphere.19 As a result, most major attempts at environmental legislation have ground to a halt. If it was difficult enough before, the results of the 2010 elections have effectively rendered any prospects for meaningful “cap and trade” legislation dead on arrival.20 The Environmental Protection Agency, which recently declared its intent to promulgate new rules for greenhouse gas emissions, is under siege with new threats to block the rules and even revoke the agency’s funding growing by the week.21 For whatever reason, environmentalism for environmentalism’s sake appears to no longer be politically palatable. Thus, this Comment will not discuss green technology primarily in the context of climate change; in essence, the issue must be reframed in order to better capture the public spirit.

Indeed, even apart from purely environmental concerns, green technology represents one of the most profitable avenues for economic growth in the foreseeable future. Markets for green technology exist in a variety of economic sectors as private demand has begun to shift businesses’ focus toward becoming more environmentally friendly.22 Due at least in part to its system of intellectual property protection, the United States has much to gain from the expansion of green technology.23

21 Chipman & Snyder, supra note 19.
22 See Michael Hasper, Green Technology in Developing Countries: Creating Accessibility Through A Global Exchange Forum, 2009 DUKE L. & TECH. REV. 1, 5 (2009) (“It is hardly surprising that many companies see product differentiation as a benefit of going green. A major driving force behind the ability to garner a profit is the opportunity to capture an untapped market, stimulate productive activity, and secure that market share through intellectual property rights on innovation.”).
23 See Paul Gupta & Stephanie Carpenter, IP Aspects of Green Technology and Strategies for Building and Investing in Green Technology Companies, 1718
In addition to the potential for economic growth, even the most ardent climate change skeptics will concede that the United States’ dependence on fossil fuels has implications for national security and foreign policy. Security analysts have made the case for framing this debate in terms of “natural security,” as the scarcity of natural resources will inevitably affect the United States’ foreign policy calculus for years to come.24

Despite the fact that the U.S. imports most of its oil from Canada and Latin America25 - not the Middle East - many emerging markets are just beginning their love affair with the sticky, black hydrocarbon.26 The corresponding increase in demand from emerging economies will continue to drive up energy prices, necessitating importation of oil from countries with less friendly dispositions toward the United States.27

It is important to note how energy policy intersects with virtually all other aspects of governance. Not only will increased prices constrain U.S. fiscal policy and make it more expensive to project American power around the globe, they create pressures that will heavily influence American foreign policy in the coming decades, whether through resource wars or climate-induced humanitarian crises.28 International trade and maritime policy in particular will be

PLI/CORP 11, 22 (2009) (“The future is bright for the green technology industry in the U.S. Currently U.S. green technology patent applications are on the rise. Foreign companies, particularly from Japan and Germany, are also being granted U.S. patent protection, evidencing a desire to protect clean technology on U.S. soil.”) (footnotes omitted).


27 See KAPLAN, supra note 7, at 7-10 (“The world’s energy needs will rise by 50 percent by 2030, and almost half of that consumption will come from India and China.”).

28 See P.W. SINGER, WIRED FOR WAR: THE ROBOTICS REVOLUTION AND CONFLICT IN THE 21ST CENTURY 285 (2009) (“This is not just about the world running out of oil, something many worry is happening as production rates fall by 7 percent annually, despite booming demand . . . . [W]ater shortages and a competition
greatly affected. Because “90 percent of global commerce and two thirds of all petroleum supplies travel by sea,” and global energy demand will continue its inexorable rise, the Indian Ocean – already heavily used by “nuclearized” powers such as Pakistan, India, China, and Israel – will dramatically increase in strategic importance to the world’s great powers.\textsuperscript{29} The proximity of nuclear states in the Asia-Pacific region, along with increased pressures commensurate with rising energy demand, are already heightening military tensions among the major players in the region, including China and Russia in particular.\textsuperscript{30} Geopolitical constraints will become increasingly difficult to manage as fuel prices continue to rise, and intervention will be needed to combat piracy and protect merchant shipping.\textsuperscript{31}

Make no mistake, the United States’ continued dependence on fossil fuels poses significant problems for the national interest. The strategic implications are clear as U.S. foreign policy throughout entire regions is framed in the context of energy.\textsuperscript{32}

Take, for example, one of the many intriguing subplots of the revolutions unfolding in the Middle East: the degree to which civil unrest in the Arab world would affect global oil prices.\textsuperscript{33} While the revolutions in Tunisia and Egypt were relatively mild in terms of impacting global oil output, the brewing civil war in Libya has driven prices much higher.\textsuperscript{34} Oil prices have not yet reached crisis levels, but these uprisings have thrown much of the Middle East into chaos, illustrating just how quickly international political events can destabilize an entire region, if not the entire world.\textsuperscript{35}

At the tactical level, reducing the military’s fuel oil dependence could literally save lives. Recalling the old adage that “an over grazing lands . . . sparked the slaughter in Darfur . . . .”).

\textsuperscript{29} KAPLAN, supra note 7, at 7-8.


\textsuperscript{31} See KAPLAN, supra note 7, at 16 (“After all, this is a world where raw material from Indonesia are manufactured into component parts . . . from Singapore, financed by the United Arab Emirates: a process dependent on safe sea-lanes that are defended by U.S. and various naval coalitions.”).

\textsuperscript{32} See Peter Fedynsky, Is Alternative Energy Viable in U.S. Market?, VOICE OF AMERICA, Mar. 3, 2011, available at 2011 WLNR 4281112 (“Traditionally, higher prices have prompted calls for American energy independence through alternative energy. But skeptics say such calls amount to little more than talk in a nation heavily dependent on cheap foreign oil.”).


\textsuperscript{34} See id.

\textsuperscript{35} See id.
army marches on its stomach,” it is easy to overlook the critical role logistics play in the use of our armed forces. NATO forces in Afghanistan have been at their most vulnerable, guarding fuel convoys through chokepoints at the Pakistani border. Because the Department of Defense relies on petroleum for more than 70% of its energy needs, reducing the logistics burden on the armed forces will allow a greater ability to project American power.

III. THE CATALYST FOR CONVERSION: A ROBUST INTELLECTUAL PROPERTY FRAMEWORK

A. Patents Reducing Pollution: Why Intellectual Property is Key

While grand strategy calls for a high level of government involvement in order to coordinate resources, the long-term potential for sustainable growth in green technology lies largely in the private sector. Thus, the business community is a key constituency in the implementation of a green technology strategy. Unfortunately, corporations are hesitant to commit wholesale investment into new technologies without being assured of a reasonable rate of return. The advent of the Internet, for better or worse, has made corporations and governments alike vastly more transparent and has driven down the costs of corporate espionage, digital piracy, and reverse-engineering of developed technology. Absent sizeable public demand, the risks of substantial research and development in green technology – itself already cost-prohibitive – are simply too great for


38 Id.

39 See Hasper, supra note 22, at 5.


companies to overcome their inertia and embark on radical projects of
their own accord.

It is precisely these risks that make a robust intellectual
property framework all the more vital to a strategy of mass-producing
green technology. Several scholars have observed that such a
framework can provide the protection and incentives necessary to
induce the sort of investment required for such radical technological
change.43 Because current patent law requires full disclosure, the
patent system appears to be one of the most simple and cost-effective
methods of encouraging innovation by deepening the knowledge pool
itself. 44 After all, the Constitution explicitly calls for measures “[t]o
promote the Progress of Science and useful Arts.”45 In this era of
economic uncertainty and international instability, green technology
appears as useful as ever.

B. Innovation and Dissemination: The Flaws of Compulsory
Licensing

Because green technology discussions are typically framed in
the context of climate change, any discussion about green technology
will inevitably need to address the dissemination problem of how to
ensure enough green technology is deployed in order to actually
combat climate change. It is important to remember that green
technology comes with a complex web of highly contentious issues in
both the developed and the developing world, especially regarding
intellectual property rights.46 Some argue that the magnitude of
climate change—akin to achieving an important pharmaceutical
breakthrough in a time of pandemic disease—necessitates compulsory
licensing in order to share green technology for free with the
developing world.47 Some take the argument even further, positing
that strong intellectual property protection acts as a barrier to green

---

43 See Fair, supra note 40 ("To offset these significant costs, most innovative
firms and individuals seek to protect their inventions with patents, which give them a
statutory monopoly over the use and dissemination of the technology for at least
twenty years.") (footnote omitted).
44 See Deborah Behles, The New Race: Speeding up Climate Change
Innovation, 11 N.C. J. L. & TECH. 1, 29 (2009) ("In contrast with trade secrets,
patents are disclosed to the public. This disclosure can help spur additional
innovation, as well as allow the invention to be used by the public after the patent
term expires.") (footnote omitted).
45 U.S. CONST. art. I § 8, cl. 8.
46 See Mark Weisbrot, Green Technology Should Be Shared, THE GUARDIAN
(May 20, 2009, 2:00PM), http://www.guardian.co.uk/commentisfree/cifamerica/20
09/may/19/wto-climate-change-intellectual-property.
47 See id.
technology development, and instead calling for “socially responsible licensing policies” that would make “nonpatenting or nonexclusive licenses the default” for federally funded green technologies.48

A compulsory licensing statute would certainly be allowed under the WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) if climate change were held to be an “emergency.”49 Despite the probable legality of compulsory licensing, the prospects of implementing such a policy, not to mention the wisdom of it, are murky at best. While securing the short-term gains of mass distributing currently patented technologies, such a compulsory licensing scheme would likely fail to secure the long-term innovation necessary to resolve a complex and ever-changing problem such as climate change.50

Additionally, one of the most obvious problems with a compulsory licensing scheme would involve drawing a bright line for what would constitute “green technology” subject to compulsory licensing. As one author has noted, “Any patented technology that accomplishes its goal with a little more efficiency or with a slightly longer lifespan could be considered ‘green.’ Granting compulsory licenses for every technology that fits such a definition may effectively eliminate intellectual property rights on most innovative technologies and the incentives those rights create.”51 Indeed, it is exactly this “product differentiation” that makes green technology such an attractive growth model.52 While efforts to develop a singular definition of “green” for intellectual property purposes are in the works,53 definitional issues will inevitably plague any compulsory licensing scheme.

50 See id. at 35 (“While compulsory licensing might be attractive for the short-term diffusion of a particular energy-efficient technology, it decreases long-term investment in the creation of more innovative technology, and discourages the diffusion of technology for which compulsory licenses are not granted.”).
51 Id. at 38 (footnote omitted).
52 See Hasper, supra note 22, at 5 (“It is hardly surprising that many companies see product differentiation as a benefit of going green.”).
Compulsory licensing is an ill-advised route for wide-scale green technology dissemination. Moreover, the discussion of compulsory licensing underscores the need for long-term strategic thinking with respect to the nation’s policies. Instead of merely aiming to appease global critics of the United States’ green technology licensing practices, it is important to ask what the implications are for the United States’ national interest. If we take the typical case, U.S. taxpayer money will have funded the research, which would most likely be conducted in U.S. research universities or national laboratories, developed and commercialized using capital from U.S. firms, and distributed as prior art for free to the rest of the world.

Compulsory licensing would seem like an excellent deal to a country like China, a country that for years has not only refused to become a party to international carbon agreements – citing the need to have its own Industrial Revolution – but has frustrated the attempts of other countries to join climate change treaties as well. China’s use of environmentalism as a moral high ground against the U.S., deriding green technology patents as some sort of sinister trade barrier, is laughable in the context of China’s decades-long practices of currency manipulation, intellectual property theft, and lax environmental protection. China understands the stakes of the game and will...
continue to press the U.S. as far as it can by casting the debate in purely environmental terms. Thus, the United States must be careful not to cede its strategic advantages on a whim.

While dissemination remains a problem, some evidence suggests that green technology licensing will occur efficiently enough without resorting to universal compulsory licensing requirements. Put frankly, green technology companies would be ill-advised to put in the hard work of innovating only to refuse to allow anyone to use the technology or to completely price out every market by charging exorbitant royalties. Voluntary international efforts, such as the Eco-Patent Commons, have demonstrated a degree of success in green technology transfer without excessive licensing requirements. In sum, there simply is no urgent need to implement a compulsory licensing scheme; to do so would only allow our economic competitors to secure benefits without assuming the commensurate amount of risk.

C. Incentivizing Innovation: Alternatives to Forced Licensing

The goal of a grand strategy is not to prescribe a panacea, but to provide a narrative arc to a set of policies, which are engineered to achieve a certain outcome. Thus, in the context of green technology, the goal of strengthening intellectual property protection is to incentivize innovation, not demand dissemination. Instead of restrictive compulsory licensing or nonpatentability schemes, there are a number of alternatives to encourage private-sector green technology development and dissemination.

awareness, and limited financial support all threaten to impede China's progress in environmental management.

60 Gregory N. Mandel, Promoting Environmental Innovation with Intellectual Property Innovation: A New Basis for Patent Rewards, 24 TEMP. J. SCI. TECH. & ENVTL. L. 51, 60 (2005) (“Despite the existence of these compulsory licensing provisions since the Clean Air Act was enacted thirty-five years ago, they apparently have never been used. This supports the conclusion that environmental innovation will be licensed relatively efficiently without the necessity of compulsory licensing.”) (footnotes omitted).

61 See Estelle Derclaye, Not Only Innovation but also Collaboration, Funding, Goodwill and Commitment: Which Role for Patent Laws in Post-Copenhagen Climate Change Action, 9 J. MARSHALL REV. INTELL. PROP. L. 657, 663-64 (2010) (“These patent pools and other voluntary models, including public pledges . . . are great alternative solutions to substantive changes (i.e., to the law) as they can transfer technology in a quicker and more flexible way . . . .”).

62 See KISSINGER, supra note 3, at 717 (“The statesman’s role is to recognize . . . [and] create a network of incentives and penalties to produce the most favorable outcome.”).
The Obama administration, recognizing the link between intellectual property and green technology innovation, has begun to implement some component policies of a grand strategy by recently implementing a pilot program through the United States Patent and Trademark Office (USPTO) to expedite the process by which certain green technology patents are reviewed. An invention seeking expedited review under the “Green Technology Pilot Program” must be one which “materially enhances the quality of the environment, or that materially contributes to: (1) The discovery or development of renewable energy resources; (2) the more efficient utilization and conservation of energy resources; or (3) greenhouse gas emission reduction . . . .” The first 3,000 applicants meeting the program’s requirements are granted “special status” and are allowed to bypass the ordinary patent examination process, which operates on a first-come, first-served basis.

If it leads to a robust network of incentives, the Green Technology Pilot Program represents an important first step in implementing a grand strategy for America’s post-petroleum future. The program is already having some effect. Originally set to expire at the end of 2010, the USPTO extended the program to continue processing applications until 3,000 petitions have been granted or until December 31, 2011, whichever is earlier. The extension also expanded the number of eligible inventions by eliminating a classification requirement that barred a number of applicants from receiving grants. As of November 2010, the program has seen marked success, with 94 patents having been issued and processing times having improved dramatically.

---

64 Id. at 64,667.
66 Press Release, U.S. Patent & Trademark Office, USPTO Expands Green Tech. Pilot Program to More Inventions (May 21, 2010), http://www.uspto.gov/news/pr/2010/10_21.jsp (“To date, more than 950 requests have been filed by applicants who wish for their application to be eligible for the Green Technology Pilot Program. Only 342 of those have been granted, primarily because many of the inventions weren’t in classifications that were eligible.”).
67 See Gene Quinn, USPTO Extends Green Technology Pilot Program Through 2011, IPWATCHDOG (Nov. 10, 2010, 3:55PM), http://ipwatchdog.com/2010/11/10/uspto-extends-green-technology-pilot-program/id=13273/ (“Program statistics show that applicants who use the program can obtain a patent much more quickly as compared to the standard examination process. . . . In several cases, patent applications in the green technology program have been issued within a year of the filing date.”).
In addition to expediting review of patents, some authors have called for the creation of a new type of “green” patent with requirements tailored specifically to green technology and climate change issues. 68 One suggestion is relaxing the non-obvious requirement, which requires an inventor to demonstrate that the invention would not be obvious to a person having ordinary skill in the art based on what was available at the time in the public domain. 69 One scholar noted that because companies primarily engage in small-scale refinements of current technologies, many innovations related to climate change would fail to overcome the non-obviousness standard. 70 Another suggestion includes shortening the exclusivity period, 71 which at present gives inventors exclusivity rights for twenty years from the filing date. 72

Of the more intriguing proposals is the suggestion of implementing a “patent rewards” system. Traditionally, such a patent rewards system would allow the government to keep the rights of a patentable invention while compensating the inventor based on the expected profit of the invention. 73 One way to implement this system in a manner tailored to green technology is to compensate the inventor based on the amount of environmental benefit the invention provides. 74 Additionally, by incorporating standards currently used in regulatory requirements, the government can achieve a carbon pricing system by replacing the concept of a “carbon tax” with a form of “carbon bounty.” 75 Through a combination of these strategies, adjustments to the patent system will produce the incentives necessary to spur private sector growth in green technology.

68 See Behles, supra note 44, at 34.
70 See Behles, supra note 44, at 28-29.
71 See id. at 34-35.
73 See Mandel, supra note 60, at 64.
74 See id. (“The proposed patent rewards system would shift an inventor's expected invention profits from compensation based on market profits to compensation based on the social benefit provided by the invention. This shift would accomplish to [sic] desired goal of internalizing the positive externalities of environmental innovation.”).
75 See generally Behles, supra note 44, at 43 (“Tying the invention to this value will directly link innovation incentives to regulatory mandates. The value of the innovation can be tied to the value of the reduction in two ways: (1) the innovation can be valued by how large the reduction is; and (2) the innovation can be valued according to the need for the reduction.”) (footnote omitted).
IV. THE ENGINE: HARNESSING THE POWER OF THE MILITARY-INDUSTRIAL COMPLEX

A. Chain of Command: The Civilian/Military Disconnect on Green Technology

The problem with scaling up green technology as a national strategy is that large companies with the vast resources required for green technology R&D are most inclined to be involved in piecemeal, incremental innovation. While such technologies are welcome, high-risk/high-reward research needs to be conducted. Thus, a robust intellectual property framework can only incentivize the private sector so far. Wide dissemination of green technologies will likely be a slow process absent involvement from other U.S. institutions. In these nascent stages, it is important not to choke off innovation by implementing compulsory licensing or similar schemes, which would undermine the very protections that intellectual property rights require.

Instead, a better way to reduce costs and begin large-scale deployment of green technologies would be to provide the demand the private sector currently lacks. Public investment can provide the resources necessary to encourage the type of game-changing technological innovation needed to fundamentally alter the nation’s energy supply. With its incredible purchasing power, supply-chain infrastructure, and global presence, perhaps no better agent is equipped for coordinating large-scale investment, procurement, and deployment of green technologies than the United States military.

Yet, while the idea of “greening” the military has been advocated at times, very few clear visions for such a policy have been articulated. In May 2010, the White House released an updated National Security Strategy, a document, which had not been revised since 2006.

---

76 See Behles, supra note 44, at 28-29; cf. Fair, supra note 40, at 37 (“The current green technology patents are predominantly for minor, specific improvements on the prior art, and as such, strong IPR may inhibit technological development of these sorts of innovations.”) (emphasis added).

77 See Fair, supra note 40.

78 See Singer, supra note 28, at 140 (“For all the claims that ‘big government’ can never match the private sector, DARPA is the ultimate rebuttal.”).

79 See Eben Harrell, Will the Military Lead the Way to Greener Technology?, TIME (Mar. 23, 2009), http://www.time.com/time/business/article/0,8599,1886116,00.html (“Although Britain has a strong arms and defense industry, environmentalists say a revolution in substitute fuels and renewables requires the backing of the U.S. military, whose procurement and R&D budgets dwarf those of other nations.”).
under President Bush. The administration’s communiqué reflected the idea that “the nation that leads the world in building a clean energy economy will enjoy a substantial economic and security advantage” and highlighted the nation’s increased vulnerability to “energy supply disruptions and manipulation and to changes in the environment on an unprecedented scale.”

While this sentiment has resonated with the military, the public-relations campaign between the White House and the Pentagon remains discordant. Indeed, the Defense Department’s National Military Strategy, published February 8, 2011, takes a much more subdued stand on the issue of green technology by merely noting the need to reduce fuel consumption. The difference in tone is striking, evidencing a disconnect between the White House and military leadership in terms of framing the need to evolve into a greener force. In order to mobilize the private sector and the population at large, these signals need to be loud, public, and in harmony - not disjointed and off-message.

B. Supplying Demand: Closing the Loop for Green Technology Innovation

As arguably the world’s largest polluter, the United States military represents one of the largest potential markets for green technology, particularly in the field of clean energy. Moreover, the

83 See Lucinda Marshall, Military Pollution: The Quintessential Universal Soldier, COMMONDREAMS.ORG (Mar. 27, 2005), http://www.commondreams.org/views05/0327-21.htm (“The U.S. Department of Defense is the largest polluter in the world, producing more hazardous waste than the five largest U.S. chemical companies combined.”).
84 See Elisabeth Rosenthal, The Military: Green Energy Champion, N.Y. TIMES GREEN, Oct. 5, 2010, available at 2010 WLNR 19749142 (“And there is great hope that some of the renewable energy technology being developed for battle will double back and play a role in civilian life. After all, the military has huge purchasing power, enough to create genuine markets.”).
lure of lucrative government contracts sends a strong signal for businesses to compete.  

Defense spending, while no longer the “sacred cow” it appeared to be prior to the 2010 elections, generally remains one of the last items to find itself on the Congressional chopping block. The prospect of government-funded innovation, strong intellectual property protection, and guaranteed back-end demand – while not exactly a closed loop – certainly presents an environment ripe for business expansion. Thus, instead of implementing a compulsory licensing framework for green technology patents or tinkering with the nation’s environmental regulatory scheme, perhaps the better way to ensure dissemination of green technology is to simply procure and deploy it en masse.

To date, the United States’ competitors have seized the initiative with respect to military applications of green technology. In particular, China has made green technology a centerpiece of its military strategy with an understanding that along with geopolitical implications involving natural resources, climate change could fundamentally alter the way wars are fought; indeed, the People’s Republic has been treating the search for alternative energy as the 21st century’s arms race. China’s involvement further underscores the need for adequate intellectual property protections, as intellectual property theft concerns have already frustrated Western companies’ attempts to exchange technologies on their own accord.

While some authors call into question the extent of China’s lead in this new venture, they agree that it will be the differences in innovation frameworks that will determine the outcome. Frankly

85 See SINGER, supra note 28, at 61 (“From 2002 to 2008, the annual defense budget has risen by 74 percent, to $515 billion. . . . Research and development (R&D) and procurement costs, what it takes to design and build new weapon systems, have thus experienced an equivalent boom . . . .”).
86 See generally id.
87 See John Naish, Lean Green Killing Machines, NEW STATESMAN, May 13, 2010, available at 2010 WLNR 17294388 (“In a report posted on the Chinese ministry of national defence’s website, [Major General Zeng Fanxiang] also predicted that climate change could alter the way battles are fought and called on the military to become more fuel-efficient.”).
88 See LINTON BROOKS, JOSHUA W. BUSBY, ET. AL., CHINA’S ARRIVAL: A STRATEGIC FRAMEWORK FOR A GLOBAL RELATIONSHIP 24 (Abraham Denmark & Nirav Patel eds., 2009), available at http://www.cnas.org/files/documents/publications/CNAS%20China%27s%20Arrival_Final%20Report.pdf (“Concerns about intellectual property theft have kept Western technology firms, in some cases, from exporting the most advanced, efficient equipment to China.”).
put, the race is on: either the United States’ government, its researchers, and its business leaders can coordinate their resources toward a national grand strategy of green technology, or they can continue to let the People’s Republic of China run away with the idea.

This is not to say that the United States has thus far completely ignored the potential for military green technology. Think-tanks and other observers have floated potential goals for greening the nation’s armed forces. For instance, the Center for a New American Security—perhaps best known for its work with General David Petraeus in formulating the military’s counterinsurgency (COIN) doctrine—has recommended the Department of Defense implement a thirty-year plan for operating all of its systems on non-petroleum fuels by 2040. Whatever the future holds in terms of alternative energy, the military has proven to be inseparable from the process of incorporating, if not itself developing, advanced technology. Despite the institutional rigidity typically associated with militaries, they have been quick to adjust their expectations and have readily embraced paradigm-breaking technologies when they have come along.

C. The Civilian-Military Complex: Ensuring Technological Cooperation and Coordination

Throughout history, the U.S. military has been at the fore of technological innovation. The twenty-first century has been no exception as the last decade has seen a marked increase in the military’s use of high-technology weapons systems with varying effect. There certainly have been miscalculations regarding the extent to which the American military can use high-technology systems in the current international security environment where low-tech insurgencies and asymmetric warfare remain the norm. Yet, for every questionable investment like the Air Force’s F-22 Raptor or the Army’s Future Combat Systems program, there has been a game-

with foreign firms ... and provide opportunities for incremental innovation. But the cutting edge is, in most cases, far away: The Chinese innovation system still has enormous difficulty moving ideas from the laboratory to commercial application.”).  

90 PARTHMORE & NAGL, supra note 37, at 3.
91 See SINGER, supra note 28, at 61.
92 See generally MARTIN VAN CREVELD, THE CHANGING FACE OF WAR: COMBAT FROM THE MARNE TO IRAQ 268-69 (2008) (“[C]ounterinsurgency, and not major war, is the most important military problem facing humanity in the present and the foreseeable future . . . .”).
93 See Fred Kaplan, The Transformer, FOREIGN POL’Y, Sept. 1, 2010, available at 2010 WLNR 17484073 (“[Defense Secretary] Gates decided to kill, slash, or restructure 33 of them, including some of the services' most cherished weapons
changing improvement that few saw coming. The most visible example is the meteoric rise of the Predator drone as a tool of American foreign policy. Originally derided as nothing more than science-fiction fantasy, the development of unmanned aerial vehicles (UAVs), and the Predator drone in particular, has caused unmanned robotics technology to become a cornerstone of the United States’ strategy in the Afghanistan/Pakistan region and beyond. In addition to new devices themselves, technological spillovers are not uncommon, particularly in terms of making existing systems or technologies more efficient. Indeed, as unmanned systems become more mainstream, it will become all the more important to make them more self-sustaining.

As to the question of whether the military ought to be involved in such a “civilian” concern as environmental protection, it is important to note the degree to which military technology has affected civilian life. Nearly fifty years ago, the Defense Advanced Research Projects Agency (DARPA), the government’s primary research agency for military technology, along with scientists from four United States research universities, created a system to allow computers to communicate among one another using signal transmissions. This system became the backbone of what we know today as the Internet. It is this civilian spillover effect that shows the true contradiction of military technology at work – the same agency that played such vital roles in the development of the atomic bomb and intercontinental ballistic missiles gave the world technology now used by students in the Middle East to help liberate their countries from military dictatorships.

systems. . . . Gates stopped the Air Force’s F-22 Raptor stealth fighter plane [and] killed whole sections of the Army’s multiplatform Future Combat Systems . . . .”)

94 See generally SINGER, supra note 28, at 32-36 (discussing the development of the Predator drone).
95 See id. at 62 (“The Teal Group is a defense consultancy firm that specializes in forecasting the financial trends for war. As clients turn to Teal for investment ideas, it is not known for zany thinking. And yet Teal describes unmanned planes with zeal, as ‘the most dynamic growth sector of the world aerospace industry.’”).
96 See generally id. at 117 (“Not having pilots who need to be replaced every ten hours or so will also allow unmanned planes to have greater endurance . . . . For example, Boeing is at work on a glider powered by solar energy and liquid hydrogen that could stay aloft for seven to ten days.”).
98 Id.
The federal government has tried to replicate the success of DARPA by implementing an agency specifically for energy purposes: the Advanced Research Projects Agency—Energy (ARPA-E).\textsuperscript{100} This agency, recently formed within the Department of Energy, will receive $550 million if the President’s new budget is passed.\textsuperscript{101} While the creation of a new energy agency certainly represents a good start, funding radical green technology research grants through DARPA itself, thereby encouraging dual-use applications, may be the better option.\textsuperscript{102}

In terms of job creation, few sectors have been an economic bedrock like the defense industry. For better or worse, despite the failure of the United States to heed the warning of President Eisenhower during his farewell address,\textsuperscript{103} the “military-industrial complex” has remained a dominant player in the United States economy since the end of World War II. Even amidst a slowdown in military spending, the five major defense contractors—Boeing, Northrop Grumman, Lockheed-Martin, Raytheon, and General Dynamics—represent a pillar of American economic might.\textsuperscript{104} Beyond the “Big Five” defense contractors, the Department of Defense has spent millions funding and developing partnerships with entrepreneurs and small businesses through its Small Business Innovation Research (SBIR) and Small Business Tech Transfer Research programs.\textsuperscript{105}


\textsuperscript{102} See SINGER, \textit{supra} note 28, at 140 (“The primary player in the world of funding new research in IT, computers, and robotics is DARPA. . . . DARPA has shaped the world we live in more than any other government agency, business, or organization.”).

\textsuperscript{103} See Harrell, \textit{supra} note 79.


\textsuperscript{105} SINGER, \textit{supra} note 28, at 143 (“These programs provide almost $1 billion in total grant money (given out in baskets of up to $850,000) to help jump-start early-stage R&D for small companies and entrepreneurs working with the Pentagon and research universities.”).
In addition to sheer volume, defense procurement offers a number of advantages with respect to international trade. Arguably, the greatest benefit to funding green technology research through military laboratories like DARPA is the ability to speed up the acquisitions process. It is difficult to overstate the potential role the military could play in America’s green technology revolution. While some think-tanks have questioned the benefits of alternative fuel sources for the military, several government contracts have been awarded to advance military green technology applications.

The spectrum of potential uses for green technology in the military is wide in terms of both breadth and depth. Propulsion alone, whether used to move bullets, tanks, ships, or planes, is a constant concern of any military; for example, the U.S. Navy has almost seamlessly made the transition from sail power to coal, then petroleum, and now nuclear propulsion. Continuing the tradition, the Navy under the Obama administration has led the charge thus far with respect to alternative energy. With a clear nod to Teddy Roosevelt’s “Great White Fleet,” a group of 16 warships that circumnavigated the globe and became the first true demonstration of modern American naval power, the Naval Department has been planning a “Great Green Fleet” since fall 2009. In October of the

106 See generally John M. Treddenick, The Arms Race and Military Keynesianism, 11 CANADIAN PUBLIC POLICY 77, 83-84 (1985) (“Trade considerations may also influence government attitudes toward military procurement. Because the GATT specifically exempts such procurement from restrictions on domestic discrimination, governments may easily use this opportunity to protect and foster industries producing military equipment, particularly when these include those industries most closely associated with technological advances.”).

107 SINGER, supra note 28, at 145 (“The military labs also serve a valuable function by end-running around the normal procurement system to get soldiers in the field what’s already available in the stores. . . . [This process] compares quite well to the years that normal weapons development might take . . . . ”).


109 See PARTHEMORE & NAGL, supra note 37, at 20.

110 Id. at 4.

111 See generally Jeremy Bloom, US Navy is Building a Green Fleet, CLEANTECHNICA (Mar. 2, 2011), http://cleantechnica.com/2011/03/02/us-navy-is-building-a-green-fleet/ (“‘Every time we make changes to improve the efficiencies of our engines or systems or we use alternative sources of power, we get better and we make people safer,’ Navy Secretary Ray Mabus told the ARPA-E Energy Innovation Summit this week.”).


113 Martin LaMonica, Navy: Full Steam Ahead on Great Green Fleet, CNET
first year of the Obama presidency, Secretary of the Navy Ray Mabus framed the discussion with a pitch-perfect display of symbolism: "‘Roosevelt sent the Great White Fleet around the world without the money to get them home . . . . ’But he was confident that Congress would want the fleet back, so he knew the money would come. And it did. No one has ever gotten anything big done by being timid.’’’114 While the Navy has been the vanguard of the green military revolution, incentives exist for each of the other service branches as well. The U.S. Air Force is currently experimenting with new fuel blends115 and is determined to have all its aircraft capable of operating on biofuels, or fuels made by algae and other biological processes, by 2011.116 Yet vehicles are simply the beginning. Military facilities around the globe, even long after their service life, offer rich opportunities for developing green businesses and technologies.117 From fully staffed bases to remote peripheral outposts, all stand to gain by becoming less dependent on civilian infrastructure for energy needs during crisis situations.118 Defense contractors are even working to reduce the environmental impact of ammunition, particularly the “tracer” rounds used to help guide one’s fire onto a target.119

One potential hurdle to using the military as a proxy for large-scale green technology dissemination is the variety of export controls

NEWS (Mar. 2, 2011, 1:01 PM), http://news.cnet.com/8301-11128_3-20038428-54.html#ixzz1H0vOF8wA (“The Navy has a program, launched in fall 2009 and called the ‘Great Green Fleet’ . . . . It’s a reference to the ‘Great White Fleet,’ the nickname used under President Theodore Roosevelt for a battle fleet which circled the globe almost 100 years ago.”).


to which military technology is subject. However, oftentimes the Executive Branch is able to seek exemptions from such export control laws through bilateral trade agreements. Moreover, many types of green technology, even if developed through military research laboratories, will be considered “dual-use,” or having civilian applications. Licensing exemptions for certain classes of dual-use technologies, such as installation, operation, maintenance or repair equipment, would allow military technologies with minimal security impact to bypass certain export controls. In addition, much of the developed world, where modern military technology would be exported, is already an ally or partner of the United States; relaxing export controls for these countries would make it easier to transfer this new military technology. Indeed, if anything, the prospect of a green military revolution would underscore the need to liberalize certain aspects of the export control regime, which could act as a further boon to U.S. defense contractors.

V. CONCLUSION

President Obama, as a former constitutional lawyer, should know all too well that “law lives on narrative, for reasons both banal and deep.” At this crucial juncture in American history, the Obama

---

121 See id. § 2778(j)(1)(A) (“The President may utilize the regulatory or other authority pursuant to this chapter to exempt a foreign country from the licensing requirements of this chapter with respect to exports of defense items only if the United States Government has concluded a binding bilateral agreement with the foreign country.”).
123 See generally Cecil Hunt, Department of Commerce Export Controls, 919 PLI/COMM 89, 107-108 (citing 15 C.F.R. § 740.13) (explaining the system of Department of Commerce export controls, and discussing possible exceptions to the licensing requirement).
125 See Robert A. Borich, Jr., Globalization of the U.S. Defense Industrial Base: Developing Procurement Sources Abroad through Exporting Advanced Military Tech., 31 PUB. CONT. L.J. 623, 626-27 (“U.S. willingness to transfer advanced technology to potential European procurement sources could result in competition that creates greater efficiencies and innovations.”).
126 See ANTHONY G. AMSTERDAM & JEROME BRUNER, MINDING THE LAW: HOW COURTS RELY ON STORYTELLING, AND HOW THEIR STORIES CHANGE THE WAYS WE UNDERSTAND THE LAW—AND OURSELVES 110-111 (2002) (“[I]ncreasingly we are coming to recognize that both the questions and the answers in such matters of ‘fact’ depend largely upon one’s choice (considered or unconsidered) of some overall
administration has the opportunity to take many disjointed polices and shape them into a narrative arc for mobilizing the populace. Flickers of hope are emerging, with the President recently unveiling the blueprint of a “SunShot” initiative. What this document lacks, however, is any mention of the critical - and strategically advantageous – role that intellectual property protection plays in ensuring that green energy research, investment, and production takes place on American soil.

While the Obama administration has tinkered with the intellectual property framework, streamlining the patent application process for “green” patents, this should just be the first step toward developing a coherent network of such policies. For example, tying these shorter application times to other incentives, such as relaxing the non-obviousness requirement and paying “carbon bounties,” could strengthen the intellectual property framework enough to generate systemic private sector innovation in the form of piecemeal incremental improvements on existing technologies. Such incentives, however, should not come without their tradeoffs, as dissemination of green technology remains a legitimate concern. Yet, rather than a compulsory licensing scheme, instituting a shortened exclusivity period or similar limitations would more properly incentivize wide dissemination.

Also absent from the President’s “blueprint” was any mention of the military’s potential for green technology deployment. After all, a grand strategy attempts to mobilize the entirety of an organization’s resources and our Commander-in-Chief has much at his disposal. Indeed, the federal government should provide the resources, through targeted DARPA/ARPA-E grants and federal military contracts, to create the initial public sector demand needed to generate true interest in green technology.

Ultimately, however, all these players require thematic direction. No matter which component policies the Obama administration chooses to adopt, the success or failure of a grand strategy ultimately lies in the degree to which it resonates with the people. It is a basic principle of economics that markets respond to demand, and the amount companies are willing to invest in developing

narrative as best describing what happened or how the world works.”


128 See Zakaria, supra note 9; See Gupta & Carpenter, supra note 23; See Levi, supra note 89.

129 See THE WHITE HOUSE, supra note 127.
a technology is directly related to the amount of interest in the product itself. While framing the green technology revolution in terms of economic growth and national security is wise, there are larger issues at stake.

If any real action on climate change is to occur, what is truly needed is a broader cultural shift toward becoming a more environmentally friendly society. Only then will green technology become mainstream instead of merely a special-interest concern. Environmentalism must no longer be derided as a caricature of itself, a topic only for the spineless, aloof, or naive. If eliminating waste is a fundamental goal of any business operation, Americans should hold their country and their selves to a similar standard. The U.S. military has begun to take note of the dangers of fossil fuel dependence; one of our nation’s most revered institutions proudly leading by example will go a long way toward persuading the populace that “going green” is a worthwhile exercise. In the end, however, the ball is in President Obama’s court - this country needs a clear grand strategy to mobilize the myriad segments of society.
COMMENT: SHOULD FURNITURE BECOME FASHION-FORWARD? APPLYING FASHION’S COPYRIGHT PROPOSALS TO THE FURNITURE INDUSTRY

Kimberly Allen Richards†

ABSTRACT

Copycat furniture companies, which produce custom furniture “knockoffs” based on the designs of other furniture companies, are seeing growing success in the United States due to the lack of intellectual property protection for useful articles like furniture. In an industry already battered by offshore manufacturing and the depressed economy, the prevalence of copycat products further affects the sales of producers of original furniture designs. In order to preserve the incentive in the furniture industry to invest in creating original designs and protect against copycats, reform is needed.

As a functional article, furniture is rarely protected by intellectual property laws. Current copyright law only protects useful articles to the extent that the article’s ornamental aspects are separable from the article’s functional aspects. The various tests for conceptual separability are ambiguous and results are difficult to predict. Design patents similarly only protect new and ornamental designs where the ornamental aspect is not primarily dictated by function. The significant backlog in the Patent and Trademark Office is also a deterrent to applying for this form of protection. Trademarks and trade dress also rarely protect furniture because only a handful of designs serve as source identifiers for furniture manufacturers.

The fashion industry’s proposals for copyright reform may be the answer to the furniture industry’s woes. Fashion designers share furniture designers’ frustrations with current intellectual property law and have pushed for a number of reforms over the past decade to protect new and original fashion designs. The most recent bill, The Innovative Design Protection and Piracy Prevention Act, would have amended the Copyright Act to specifically protect the appearance of an article of apparel as well as its ornamentation for a three-year period. While opponents of the bill cited the strength of the fashion

† Staff Member of the Journal of Business and Intellectual Property Law and J.D. candidate, May 2012, at Wake Forest University School of Law. Many thanks to Professor Simone Rose and Allison Richmond for their advice and helpful comments, and my husband, Mike, for his insight, love and support.
industry in spite of copycats, the same argument does not hold in the struggling furniture industry.

Recent proposals from the fashion industry could be adapted to the furniture industry to help close the industry’s gap in intellectual property protection and preserve the incentive for the furniture industry to invest in creating original designs. In order to revitalize the furniture industry and protect its original and innovative designs, the furniture industry should push for their own reforms and become fashion-forward.
I. INTRODUCTION

Twice a year, over 85,000 people pour into High Point, North Carolina, to attend the largest furniture trade show in the world.\(^1\) Buyers and designers return year after year to catch a glimpse of the latest designs and innovations in furniture from over 2,000 exhibitors.\(^2\) Imagine walking around the exhibit halls and spotting a chair that looks familiar. You take a closer look and realize the chair is actually your design. However, the chair is not in your booth, and your labels have been removed. Unfortunately, this is an all too common occurrence in the furniture industry. For an industry that is already in trouble due to offshore manufacturing, copycat producers could prove devastating. Intellectual property protection is the key element in curbing copycats and protecting the creation of innovative designs within the furniture industry.

Furniture has long been an example of a functional object.\(^3\) Due to its primarily functional nature, intellectual property protection is often difficult, if not impossible, to obtain for furniture pieces.\(^4\) Yet, furniture design can be innovative and artistic. Copycat furniture companies, which create custom furniture based on designs from Pottery Barn, Ethan Allen, Room & Board, and other popular retailers and designers, are seeing growing success due to the lack of copyright protection in the US.\(^5\) These companies produce furniture knockoffs at significantly lower prices than the original designers and make this “custom furniture” available to price-conscious consumers. In an already economically challenging time, this process of copying further affects traditional furniture designers’ sales. For example, Williams-Sonoma, Inc., owner of retail furniture stores like Pottery Barn, reported a 17.5% decline in revenue from January 2008 to January 2010.\(^6\) Additionally, Ethan Allen Interiors Inc.’s design center revenues fell 40% from June 2008 to June 2010.\(^7\)

---

\(^2\) Id.
\(^3\) See Wal-Mart Stores v. Samara Bros., 529 U.S. 205, 213 (2000) (noting the inherent functionality of product designs where the design serves to “render the product itself more useful or more appealing”); Amir Efrati, Business Plans That Rest on Imitation, WALL ST. J. (Aug. 26, 2010), http://online.wsj.com/article/SB10001424052748703846604575447781590965788.html ( “Most everything about an item of furniture is functional.”).
\(^4\) See Efrati, supra note 3.
\(^5\) Id.
\(^6\) Id.
\(^7\) Id.
With incoming orders 20 to 40 percent below normal levels, the furniture industry in the United States is in trouble.\textsuperscript{8} In order to increase demand, furniture companies must market innovative designs. Copycat furniture companies hinder innovation by taking business from companies who invest in new designs. The process of copying “only serves to confuse the consumer and lead to a sameness of design offerings.”\textsuperscript{9} Protecting original designs is crucial for a company’s survival in an industry as competitive as the furniture industry because “design copying and infringement are almost epidemic in the furniture industry.”\textsuperscript{10} A key question to ask is: what can be done to protect and promote this $140 billion industry in the United States?\textsuperscript{11}

A. The Furniture Industry’s Response to Copycats

Some furniture companies are taking action against copycats to protect their innovative designs under existing copyright law. In 2009, Wynwood Furniture settled a copyright and trade dress infringement lawsuit against Endura, Inc.\textsuperscript{12} The furniture collections involved in the suit featured “pronounced carvings and shapely wrought iron” among other distinct features.\textsuperscript{13} Joseph Hill, President and Chief Operating Officer of Wynwood Furniture, stated, “[w]e will continue to take aggressive action where necessary to protect ourselves and our dealers.”\textsuperscript{14}


\textsuperscript{9} Id. at 6.


\textsuperscript{11} U.S. DEP’T OF COMMERCE, BUREAU OF ECON. ANALYSIS, NAT’L INCOME & PRODUCTS ACCOUNTS TABLE, http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=70&Freq=Year&FirstYear=2008&LastYear=2009 (noting that U.S. furnishings and durable household equipment sales totaled $139.1 Billion in 2009) (last revised Aug. 5, 2010).


\textsuperscript{14} Wynwood Furniture, supra note 12.
SHOULD FURNITURE BECOME
FASHION-FORWARD?

Furniture, Inc., which originally filed suit against Collezione Europa USA in 2004. The court held Universal’s "highly ornate collections of furniture adorned with three-dimensional shells, acanthus leaves, columns, finials, rosettes, and other carvings" warranted copyright protection and were not just functional designs. Universal Furniture was awarded more than $11 million in damages and Collezione filed for bankruptcy.

Despite these success stories, the vast majority of furniture is not protected by copyright or other intellectual property protections such as design patents, trademarks, or trade dress due to the furniture’s functional nature. Copyright protection is only allowed for useful articles like furniture when the artistic or ornamental aspects are physically or conceptually separable from the functional aspects of the article. Even with Universal Furniture’s success, most furniture designs would have difficulty passing this test for separability, and different circuits utilize numerous tests. Design patents pose a similar issue as copyrights; they only protect new and ornamental designs where the ornamental aspect of the design is not “primarily dictated by functional considerations.”

The current backlog in the United States Patent and Trademark Office is also a deterrent to relying on patents for protection. Further, trademarks and trade dress, while often a good option for fashion designers, do not adequately protect furniture due to the fact that only a handful of recognizable brands exist in the retail furniture industry.

---

15 Universal Furniture Int’l, Inc. v. Collezione Europa USA, Inc., 618 F.3d 417, 424 (4th Cir. 2010).
16 Id. at 434.
17 Id. at 427.
19 17 U.S.C. § 102 (2010) (copyright protection is available to useful articles only to the extent that pictorial, graphic, or sculptural works can be identified separately from the utilitarian aspects of the article).
Jack Hicks, an intellectual property attorney, stated: “[i]ntellectual property laws exist in large part to reward companies who take a risk with new designs . . . [a]nd when you do hit a home run, it rewards them by giving them exclusivity.”

However, the paths to obtaining legal rewards are difficult to navigate. The requirements are often vague and the tests are not uniformly applied. Only unique, ornate designs, such as those in Universal Furniture, have any hope of protection. The furniture industry, however, is not alone in its predicament with intellectual property protection. The fashion industry bears striking similarities to the furniture industry, and fashion designers have organized to propose a solution: a new form of copyright protection specific to fashion design.

B. The Fashion Industry’s Proposals for Copyright Reform

Like furniture, the fashion industry also has a rising number of copycat producers. Due to fashion’s status as a “useful article,” copyright protection is rarely available. Fashion is a $322 billion dollar industry and copycat retailers are seeing growing success. Many designers choose to protect their designs with logos, which are protected under trademark law. However, small and unknown designers “usually don't have the logos on handbags and accessories that enable the big-name designers to enjoy the protection of existing trademark law.”

Similar to the furniture industry, which displays new designs at annual furniture markets in High Point, Chicago, and Las Vegas, the fashion industry displays collections on New York runways about six months before the designs appear on the market. This allows ample time for copycats to develop and market cheaper

---

25 BUREAU OF ECON. ANALYSIS, supra note 11 (U.S. clothing and footwear sales totaled $322.2 billion in 2009).
alternatives. Billions of dollars are lost in the fashion industry each year to copycats.28

The fashion industry has pushed for a number of reforms to copyright law over the past decade in an effort to protect new and original fashion designs.29 The most recent bill, The Innovative Design Protection and Piracy Prevention Act (S. 3728), was introduced on August 5, 2010 by Senator Charles Schumer (D-NY).30 Although the bill was ultimately unsuccessful, the Schumer bill limited copyright protection for fashion designs to three years and adopted a “substantially identical” test to find infringement of protected designs.31

S. 3728 would have amended Chapter 13 of the Copyright Act, which provides copyright protection to a “designer or other owner of an original design of a useful article which makes the article attractive or distinctive in appearance to the purchasing or using public . . . .”32 Currently, the term “useful articles” only applies to vessel hull or deck designs.33 The design owner “has the exclusive right to (1) make, have made, or import, for sale or for use in trade, any useful article embodying that design; and (2) sell or distribute for sale or for use in trade any useful article embodying that design.”34 The Schumer bill would have extended this protection to fashion by amending the definition of “useful articles” to include fashion design and apparel.35 New York’s Council of Fashion Designers of America (CFDA), the American Apparel & Footwear Association (AAFA), and several well-known designers supported this legislation.36

Many in the fashion industry, however, have been vocal about their opposition to these proposed revisions, arguing the industry is

30 S. 3728, 111th Cong. (2010); see also H.R. 2196, 111th Cong. (2009).
31 S. 3728, 111th Cong. (2010).
better served by allowing copycats to continue. Their main argument is that copycats feed the design cycle and actually encourage more innovation. Two law professors, Kal Raustiala (University of California, Los Angeles) and Christopher Sprigman (University of Virginia), explain that “copies, by diffusing the original design to the mass of consumers, leads [sic] early adopters to seek out new designs in order to stay ahead, or on top, of the fashion cycle.” This argument has been heavily criticized. Law professors C. Scott Hemphill (Columbia University) and Jeannie Suk (Harvard University) argue that while “‘borrowing’ is common in fashion, and might be valuable to fashion innovation, [this] does not itself provide support for the permissibility of close copying in fashion design.” Hemphill and Suk believe that original designs should be protected from “close copies” which do nothing to further innovation.

Could furniture benefit from the type of reform proposed by the fashion industry? In Parts II and III of this Article, I explore the deficiencies in intellectual property protection as applied to furniture through copyright, patent, and trade dress law. In Part IV, I explore the applicability of the fashion industry’s copyright reform proposals to the furniture industry and discuss the possibility of furniture becoming fashion-forward.

II. THE CHALLENGE OF COPYRIGHT PROTECTION FOR USEFUL ARTICLES

Copyright protection stems from Article I, Section 8 of the United States Constitution which empowers Congress “[t]o 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.” In this section, I discuss the limited copyright protection available for useful articles that has grown from the Constitutional mandate to “promote the Progress of Science and the useful Arts.” I then outline the various tests for conceptual separability that useful articles must pass to gain protection for their artistic aspects. Finally, I focus on a process-oriented test for

38 Raustiala & Sprigman, supra note 27, at 1723 n.71.
40 Id.
41 U.S. CONST. art. I, § 8, cl. 8.
conceptual separability that the Fourth Circuit utilizes to protect furniture designs.

A. The Limits of Copyright Protection for Useful Articles

The Copyright Act of 1976 ("the Act"), which grants protection for the life of the author plus seventy years, protects "original works of authorship fixed in any tangible medium of expression" including "pictorial, graphic, and sculptural works," but does not protect useful articles’ utilitarian aspects.42 The Act defines a useful article as "an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information."43 Useful articles, such as furniture or apparel, are included as pictorial, graphic, or sculptural works only to the extent that the pictorial, graphic, or sculptural features "can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article."44

This exception for useful articles was included in the Copyright Act following the Supreme Court's holding in Mazer v. Stein, a 1954 case involving copyright protection of china statuettes that formed part of the bases of table lamps.45 Even though the lamps were utilitarian objects, the Court held that the statuettes were original, tangible expressions of the author’s ideas that warranted copyright protection.46 In codifying the holding from Mazer, Congress developed a separability test that useful articles must pass in order to gain copyright protection.47 The separability test includes both physical and conceptual separability.48 Physical separability, such as the ability of the Mazer statuettes to be separated from the lamp without affecting its functionality, generally poses less of a challenge to courts than the difficult and ambiguous test of conceptual separability.49

If the article passes the separability test, copyright protection only covers the pictorial, graphic, or sculptural element, such as the

---

46 Id. at 214.
49 See Masquerade Novelty, Inc. v. Unique Indus., Inc., 912 F.2d 663, 670 (3d Cir. 1990) ("Courts have twisted themselves into knots trying to create a test to effectively ascertain whether the artistic aspects of a useful article can be identified separately from and exist independently of the article's utilitarian function.").
statuette, and not the article’s functional component, the lamp. In drafting the Copyright Act, the House Report specifically notes this point in the context of furniture:

[O]nly elements . . . which can be identified separately from the useful article as such are copyrightable. And, even if the three-dimensional design contains some such element (for example, a carving on the back of a chair or a floral relief design on silver flatware), copyright protection would extend only to that element, and would not cover the over-all configuration of the utilitarian article as such.

Furniture and other useful articles, therefore, must first pass the test for physical or conceptual separability, and even then, only certain elements of the useful article will be protected by copyright. In the next section, I explore the various tests for conceptual separability and then analyze the potential of the process-oriented test to provide protection for furniture designs.

B. The Various Tests for Conceptual Separability

Courts have adopted various tests for conceptual separability since Mazer and the Copyright Act of 1976.52 Unfortunately, many of these tests are vague and lead to unpredictable results. In this section, I outline the tests for conceptual separability courts have applied to useful articles and highlight some of the inconsistencies among their applications.

The Second Circuit adopted a primary/subsidiary test in Kieselstein-Cord in 1980, which involved two belt buckles that were “decorative in nature and used as jewelry.” The court held that the belt buckles warranted copyright protection because “[t]he primary ornamental aspect of the Vaquero and Winchester buckles is conceptually separable from their subsidiary utilitarian function.”54 Paul Goldstein commented on the ornamental design of the belt

51 Id. at 55.
53 Kieselstein-Cord v. Accessories by Pearl, Inc., 632 F.2d 989, 990 (2d Cir. 1980).
54 Id. at 993 (emphasis added).
buckles, stating, "purchasers of artistically designed useful articles typically have two motives: to use the article and to enjoy its design. A consumer who pays $662 for an ornamental belt buckle clearly wants something that will do more than hold up his pants." The concept of conceptual separability allows for a broader range of items, such as ornamental belt buckles, to fall under the normally non-functional nature of copyrightable items.

Another useful article was the subject of litigation in the Second Circuit in 1985: four human torsos designed by Carol Barnhardt, Inc. for mannequin displays. This time the court denied copyright protection, stating, “the features claimed to be aesthetic or artistic . . . are inextricably intertwined with the utilitarian feature, the display of clothes.” The court held copyrightability “should turn on [the object’s] ordinary use as viewed by the average observer.” A later Second Circuit case stated that Barnhardt was irreconcilable with Kieselstein-Cord and that Barnhardt applied a test of physical, not conceptual, separability. Judge Newman, in his dissent in Barnhardt, advocated for a “mind of the beholder” test, stating that conceptual separability depends on what occurs in the ordinary observer’s mind. The majority attacked Newman’s test as one that “underscore[s] the bottomless pit that would be created by such a vague test.”

The Barnhardt court also considered the Nimmer “market approach”. Nimmer states that conceptual separability exists when a useful article “would still be marketable to some significant segment of the community simply because of its aesthetic qualities.” The Second Circuit rejected this approach, citing the admitted risk of

---

55 Orit Fischman Afori, The Role of the Non-Functionality Requirement in Design Law, 20 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 847, 853 n.31, 865 n.105 (2010) (citing PAUL GOLDSTEIN, COPYRIGHT, PRINCIPLES, LAW AND PRACTICE § 2.5.3(b)–(c) (Little, Brown & Co. 1989)).
57 Id. at 419.
58 Id. at n.5.
60 Barnhardt, 773 F.2d at 422 (Newman, J., dissenting). Newman’s test is commonly referred to as the “temporal displacement” test, e.g., Brandir, 834 F.2d at 1144.
61 Id. at 419 n.5.
62 Id. at 421–22.
63 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 2.08 [B][3], at 2-101 (2007).
“allowing a copyright only to designs of forms within the domain of popular art . . . .”

In 1987, the Second Circuit analyzed yet another test for conceptual separability, Professor Denicola’s spectrum test, in Brandir International v. Cascade Pacific Lumber Co. This case involved a bike rack, called the “RIBBON Rack.” The RIBBON Rack functioned as a bike rack, but was uniquely designed based on a wire sculpture. Professor Denicola explained his test descriptively: "there is no line, but merely a spectrum of forms and shapes responsive in varying degrees to utilitarian concerns." According to Denicola, copyright protection “should turn on the relationship between the proffered work and the process of industrial design,” and this process should determine the extent of functional considerations. Where aesthetic and functional aspects are merged, conceptual separability does not exist. Alternatively, “where design elements can be identified as reflecting the designer’s artistic judgment exercised independently of functional influences, conceptual separability exists.”

The designer of the RIBBON Rack discovered the idea for the bike rack after juxtaposing a wire bicycle sculpture with another self-standing wire sculpture that he had “created and displayed in his home as a means of personal expression.” Despite an offer to use the RIBBON Rack solely as an environmental sculpture and expert testimony regarding the artistic qualities of the bike rack, it was not protectable by copyright. The court stated, “while the rack may have been derived in part from one of more ‘works of art,’ it is in its final form essentially a product of industrial design” heavily influenced by “utilitarian pressures.”

---

64 Barnhardt, 773 F.2d at 422.
65 Brandir, 834 F.2d at 1143.
66 Id. at 1143.
68 Brandir, 834 F.2d at 1145 (quoting Denicola, supra note 67, at 741).
69 Id.
70 Id.
71 Id. at 1146.
72 See id. at 1152 (Winter, J., concurring in part and dissenting in part).
73 Id. at 1147. The court noted the changes the designer made to the original sculpture in order to make it function better as a bike rack, such as widening the curves to accommodate bike parking above and below the rack’s curves. This suggests the bike rack as a utilitarian design may have fit better in the realm of patent, rather than copyright law.
The popular process-oriented approach based on *Brandir* is articulated by the Seventh Circuit in *Pivot Point*, a case involving copyright protection for four mannequin heads for use in the hair design and make-up industries.74 Pivot Point’s founder, Leo Passage, worked with a German artist to create a sculpture of a female head and then developed features to create a “hungry look” based on the looks of high-fashion runway models.75 The designer had “carte blanche” to create Passage’s vision and “was [not] constrained by functional considerations” such as making the eyes a certain width or arching the brow to better accommodate make-up artists who may use the mannequin.76 The Seventh Circuit held that the mannequin “was the product of a creative process unfettered by functional concerns, [and] its sculptural features ‘can be identified separately from, and are capable of existing independently of,’ its utilitarian aspects.”77 Therefore, the requirements for conceptual separability were met.

The various tests for conceptual separability make copyright protection for useful articles a mysterious quest. The popular process-oriented approach to conceptual separability, however, may provide a more predictable approach. In the next section, I explore this test in the context of a Fourth Circuit case, which utilized the process-oriented approach to protect certain elements of furniture designs.

C. *Universal Furniture v. Collezione Europa USA: The Stage is Set for Protection of Furniture Design*

The furniture industry and industrial designers may find some hope in the process-oriented approach to conceptual separability. In a 2010 furniture case, *Universal Furniture v. Collezione Europa USA*, the Fourth Circuit adopted the process-oriented approach from *Pivot Point*.78 Utilizing this test, the court found that the furniture’s decorative elements warranted copyright protection.79 Two furniture lines from Universal Furniture, the Grand Inheritance Collection (GIC) and the English Manner Collection (EMC), were “adorned with three-dimensional shells, acanthus leaves, columns, finials, rosettes, and other carvings.”80 Citing the statuettes

74 See *Pivot Point Int’l, Inc. v. Charlene Prods., Inc.*, 372 F.3d 913, 930 (7th Cir. 2004).
75 Id. at 915.
76 Id. at 931–32.
77 Id. at 932.
78 See *Universal Furniture Int’l, Inc. v. Collezione Europa USA, Inc.*, 618 F.3d 417, 434 (4th Cir. 2010).
79 Id. at 435.
80 Id. at 434.
on the lamp base in Mazer and the ornamental belt buckles in Kieselstein-Cord, the court labeled the furniture designs as “superfluous nonfunctional adornments for which the shape of the furniture (which is not copyrightable) serves as the vehicle.”81 The court held that these decorative elements were conceptually separable from the furniture’s “utilitarian aspects.”82

The process-oriented approach to conceptual separability allowed the court to focus on the design process of the furniture lines, which was well documented in this case. Steven Russell, designer of Universal’s GIC and EMC lines, “developed the shape of the furniture before turning to ornamentation” and his design process reflected that the ornamentation was more of an aesthetic choice versus a functional choice.83 Russell’s objective in applying the shells, leaves, rosettes, and other carvings did not improve the furniture’s utility but served to “give [the pieces] a pretty face.”84

However, the district court noted that Mr. Russell’s deposition testimony revealed that “some of Mr. Russell’s design decisions were tempered by the need to create a functional piece of furniture” such as Mr. Russell’s agreement that he would not locate a carving in a position that would prevent a drawer from opening.85 Nevertheless, the Fourth Circuit upheld the district court’s decision that the decorative elements were copyrightable, concluding that the form of the furniture was not “‘inextricably intertwined’ with the function of furniture.”86 The court emphasized that only the decorative elements were protected, not the entire piece of furniture.87

This focus on the design process may allow prudent designers to obtain copyright protection for the artistic elements of a functional piece. But many, if not most, industrial designs like the RIBBON Rack will still be unable to obtain copyright protection. In the RIBBON Rack case, the design process actually hurt the case for copyright protection because the designer changed the original sculptural design so the design would function better as a bike rack.88

81 Id.
82 Id.
83 Id.
84 Id.
86 Universal Furniture Int’l, Inc. v. Collezione Europa USA, Inc., 618 F.3d 417, 435 (4th Cir. 2010).
87 Id.
The designer widened the loops to allow bike parking above and below the curves, and changed the end posts to allow in- and above-ground installation of the bike rack. The court stated, “[h]ad Brandir merely adopted one of the existing sculptures as a bicycle rack, neither the application to a utilitarian end nor commercialization of that use would have caused the object to forfeit its copyrighted status.”

Designers relying on the process-oriented test should be aware of the results of cases such as *Universal Furniture* and *Brandir* to better predict the copyrightability of their designs. Circuits applying the same test can differ in results. The RIBBON Rack was deemed utilitarian even though it began purely as a decorative sculpture whereas the decorative elements on Universal’s furniture lines were protected despite the fact that the designer was constrained by functional considerations, such as ensuring the drawers still opened.

Even though the process-oriented approach to conceptual separability is gaining popularity, numerous other tests exist and have been used in various circuits. In the context of furniture, it seems that only the most ornate designs, such as in *Universal Furniture*, gain copyright protection. The goal of intellectual property protection is “[t]o promote the Progress of Science and useful Arts . . . ” If copyright law aims to promote “progress,” should the design process matter more than the end result?

The current tests utilized by courts in deciding these questions of copyrightability often turn on the difficult and ambiguous question of where utility ends and design begins. The furniture industry in particular will benefit from a clearer solution to determining the copyrightability of useful articles. A clearer solution would promote progress and innovation in furniture design, and protect those designs from copycat products.

### III. The Failure of Patent and Trademark Protection

Patents and trade dress, two other forms of intellectual property protection, similarly fail to provide adequate protection for furniture designs. In this section, I provide a brief overview of each type of protection and analyze the insufficiencies when applied to furniture designs.

---

89 *Id.*

90 *Id.*

91 U.S. CONST. art. I, § 8, cl. 8.
A. Patents

Furniture designers often turn to the patent system to protect their work, especially when an article is not sufficiently artistic to qualify for copyright protection. Two types of patents may provide protection: utility patents and design patents. Generally, “a 'utility patent' protects the way an article is used and works (35 U.S.C. § 101), while a 'design patent' protects the way an article looks (35 U.S.C. § 171).”

Utility patents generally include new and non-obvious “processes, machines, manufactures and compositions of matter,” and offer an owner twenty years of protection from the patent-filing date. Design patents cover “new, original, unobvious, and ornamental designs for articles of manufacture” and offer fourteen years of protection from the patent-grant date. Many furniture designs are borrowed from traditional styles, which could present a problem in meeting the “new” requirement for both types of patents. It is not impossible, however, since “improvements that significantly alter a product’s appearance, increase its comfort, adapt it for mass production, or alter aspects of the style to fit modern homes, may still be patented.” Once an article has qualified as new and original for a design patent, it must also qualify as ornamental, meaning “a design must present a pleasing aesthetic appearance and must not be dictated solely by functional considerations.”

The patenting process itself is another significant obstacle to protecting furniture designs. The United States Patent and Trademark Office has developed a system to predict patent output based on historical data, called the Patent Pendency Model (PPM). As of

---

92 See 1 DONALD S. CHISUM, CHISUM ON PATENTS § 1.01 (2010).
93 Id. at § 23.01.
94 Id. at §§ 1.01, 23.01.
95 See 35 U.S.C. § 120 (2010) (explaining that later filed patent have the same effect as if filed on the date of earlier application.); 35 U.S.C. § 173 (2010) (“Patents for designs shall be granted the term of fourteen years from the date of grant.”)
96 Hicks, supra note 22, at 5.
97 CHISUM, supra note 91, at § 23.01.
98 Robins & Staba, supra note 20 (emphasis added).
February 2011, the patent backlog was 715,461 pending applications and the average number of months from the application date to the date a First Office Action notice is mailed was 24.5 months.\textsuperscript{100} The label of “patent pending” in a furniture catalog will likely serve as a deterrent to copycats until the application moves through the patent process.\textsuperscript{101} However, just like the lack of uniformity among the numerous copyright tests, the patent system’s inefficiencies also pose real problems to legally protecting furniture.

\textbf{B. Trademarks and Trade Dress}

Just like the problems protecting furniture designs under the copyrighting and patenting systems, problems also exist for furniture designs in obtaining trademark and trade dress protection. Trademarks are “any word, name, symbol, or device” used by or intended to be used by a person “to identify and distinguish his or her goods . . . from those manufactured or sold by others and to indicate the source of the goods . . . .”\textsuperscript{102} Trade dress, a subset of trademarks, generally refers to “non-verbal source identifiers” like the symbols and devices in the definition of trademarks; the Supreme Court analyzes both trademark and trade dress in the same manner.\textsuperscript{103}

Trademarks and trade dress are not strong protections for furniture, due in part to the fact that only a handful of recognizable brands exist in the retail furniture industry.\textsuperscript{104} The key elements in a trademark or trade dress case are to show (1) the distinctiveness of an article, either through inherent characteristics or through secondary meaning, and (2) that a likelihood of confusion exists between the plaintiff’s and defendant’s articles.\textsuperscript{105} The functional nature of furniture again poses a problem with trademark protection. The non-verbal source identifiers should also be non-functional elements, as a recent case illustrated.

In August 2010, the Seventh Circuit Court of Appeals provided some guidance to furniture designers in cases involving trade dress. Here, Greenwich Industries attempted to enforce a trademark registration for the “X-frame” design visible on the side of its folding

\textsuperscript{100} United States Patent and Trademark Office, Patents Dashboard, \textit{supra} note 21.

\textsuperscript{101} Hicks, \textit{supra} note 22, at 6..


\textsuperscript{103} 1 ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 2A.01 (2010) [hereinafter GILSON].

\textsuperscript{104} \textit{Id.}

\textsuperscript{105} Two Pesos, Inc. v. Taco Cabana, Inc. 505 U.S. 763, 769 (1992).
chairs, which it claimed was a distinctive feature of the chair. 106 The Seventh Circuit refused to protect the X-frame chair, affirming the district court’s holding that the “design is functional as a unit, and that every important aspect of it is independently functional.” 107 Because no non-functional aspect of the design existed to make the chair’s appearance distinctive, trademark laws provided no protection. 108

One possible solution is that furniture companies who wish to obtain trademark or trade dress protection should consider a marketing strategy aimed at an identifying feature. 109 For example, “advertising that highlights the design as an indicia of source and not merely a desirable design element can be highly effective in establishing protectable trade dress.” 110

Out of all the choices for intellectual property protection, the fashion industry most utilizes trademarks. 111 The designer or retailer’s name is often visible on an item of clothing, a handbag, a pair of sunglasses, or even a pair of shoes. Sometimes the mark is incorporated into the design of the article as seen in Burberry’s famous plaid design, which is a registered trademark. 112 In the cases of logos or brand names, only the logo or name is protected by trademark, not the article. 113 The remainder of the article must meet the requirement for distinctiveness, which requires a showing that the article is not functional. 114 Most articles of clothing will not pass this test necessary for full protection. 115

Furthermore, since “many designs are copied in a relatively short span of time, the general public may identify a distinctive trend in fashion designs but will not likely associate that trend with one

107 Id. at 727.
108 See id.
110 Id.
112 See CHECK LINING DESIGN, Registration No. 1,241,222 (providing Burberry’s registration information).
114 15 U.S.C. § 1125(a)(3) (the burden is on the producer to show that the allegedly infringing feature is not functional).
115 A notable exception is Christian Louboutin’s shoes, which feature shiny, red soles. The red soles became his signature mark and were granted trademark protection. MISCELLANEOUS DESIGN, Registration No. 3,376,197.
particular designer.” While the fashion industry may find some protection through trademark laws, this solution will not protect the entire article of clothing. Thus, the protection for functional articles like fashion and furniture is lacking.

IV. SHOULD THE FURNITURE INDUSTRY BECOME FASHION-FORWARD?

Due to the similarities in the furniture and fashion industries, recent proposals to reform intellectual property in the fashion industry may provide helpful insights into strengthening intellectual property protection in the furniture industry. For example, both fashion and furniture have seasonal design cycles. Articles on display at fashion shows and furniture markets give copycat retailers an opportunity to preview these designs and manufacture lower cost, and often lower quality, versions of the latest designs. Copycats generate billions of dollars from these industries and rob the original designers of their creations. Given the highly functional nature of both fashion apparel and furniture, current intellectual property laws such as copyrights, patents, and trademarks offer little to no protection. Only a decorative belt buckle that can also be worn as jewelry or a highly ornate chest of drawers will pass the test for non-functionality. Fashion designers have worked on various proposals over the past decade and the proposed legislation may work well for the furniture industry.

A. How the Fashion Industry’s Proposals for Copyright Reform Might Apply to the Furniture Industry

The most recent proposal to reform intellectual property in the fashion industry, the Innovative Design Protection and Piracy Prevention Act (“S. 3728”), would have amended Chapter 13 of the Copyright Act to specifically protect the appearance of an article of apparel as well as its ornamentation for a three-year period. The proposal defined apparel broadly to include clothing (including undergarments, outerwear, gloves, footwear, and headgear), handbags, purses, wallets, duffel bags, suitcases, tote bags, belts, and eyeglass

118 S. 3728, 111th Cong. § 2(a)(2)(B), §2(d)(2) (2010) (appending to the statute section (7)(A)). S. 3827 passed the Judiciary Committee and was placed on the Senate Legislative Calendar for a full vote. It did not pass during the 111th Congress, but may be re-introduced in subsequent Congresses.
frames. 119 H.R. 2196, an earlier version of S. 3728, was introduced in the House of Representatives in April of 2009 but stalled in the House Committee on the Judiciary. H.R. 2196 indicated that a “fashion design”: “(A) is the appearance as a whole of an article of apparel, including its ornamentation; and (B) includes original elements of the article of apparel or the original arrangement or placement of original or non-original elements as incorporated in the overall appearance of the article of apparel.” 120 In addition to this definition, S. 3728 required that the elements be the result of a designer’s own creative endeavor and provide a unique, distinguishable, non-trivial, and non-utilitarian variation over prior designs for similar types of articles. 121

If the furniture industry were to adopt a similar proposal to S. 3728, the design process would be extremely important, just as it is under the process-oriented test for conceptual separability. 122 S. 3728 did not elaborate on what constitutes a “non-utilitarian variation over prior designs for similar types of articles,” but one may envision, in a furniture context, that significant changes to the shape and length of bedposts or the curvature of a wing-back chair may qualify. 123 A longer bedpost or change in shape would not likely affect the utility of the piece of furniture. If non-utilitarian variations are interpreted to mean ornamentation, however, then the furniture industry might as well continue to take its chances on obtaining protection under conceptual separability because the fashion industry’s proposal would still require separation of the functional and ornamental features.

This addition of non-utilitarian variations to S. 3728 reflected a compromise between the various sides of the fashion copyright debate. Furniture proponents may be able to adopt a more relaxed standard like the one in H.R. 2196, which protected both original and non-original aspects as incorporated in the whole article of apparel. 124 H.R. 2196 did not include S. 3728’s requirement for a “unique, distinguishable, non-trivial, and non-utilitarian variation over prior

---

119 S. 3728 at §2(a)(2)(B) (appending to the statute sections (9)(A)–(C)).
121 S. 3728 at § 2(a)(2)(B) (appending to the statute section (7)(B)).
123 S. 3728 at §2(a)(2)(B) (appending to the statute section (7)(B)(ii) without elaboration).
124 H.R. 2196 at §2(a)(2)(B); see Subsection B, infra, regarding why the furniture industry may be able to lobby for stronger protections than the fashion industry.
designs for similar types of articles. This more relaxed standard in H.R. 2196 would avoid any questions on separating the functional and ornamental features since it would protect all aspects of the article as a whole. In considering a similar reform proposal, the furniture industry may seek to define non-utilitarian variations or lobby for the more relaxed standard in H.R. 2196. The furniture industry would also need to define “furniture.” This definition may include home and office furnishings (including sofas, chairs, tables, beds, chests, armoires, shelves, desks, consoles, and cabinets), draperies, rugs, mirrors, and lamps.

The infringement standard is also important. H.R. 2196 contained a less strict infringement standard than S. 3728. H.R. 2196 stated that the party asserting infringement must show that the allegedly infringing design is substantially similar. Under current copyright law, unless the plaintiff possesses direct evidence of defendant’s copying, “it may create a presumption of copying by indirect evidence establishing that the defendant had access to the copyrighted work and that the defendant’s work is ‘substantially similar’ to the protected material.” In Universal Furniture, Universal’s expert testified that the “collections shared a ‘great collection of ornamental detail, principally in the form of relief carvings’ and were ‘similar in terms of placement, selection, arrangement, and most certainly execution.’” Despite changes Collezione made to some of the ornamental designs and placements of the designs, the court held that the designs were substantially similar. S. 3728 reflected a compromise with opponents of reform and includes a stricter “substantially identical” standard.

Overall, the concepts of H.R. 2196 and S. 3728 would help close the gap in copyright protection for the furniture industry. A three-year protection term would promote innovation and complement the furniture industry’s annual design cycle. Immediate protection for designs would eliminate administrative burdens. Most importantly, providing explicit protection for furniture designs would eliminate the ambiguous and inconsistent application of the conceptual separability test. Furniture designs could gain protection even if they do not boast highly ornate embellishments.

125 S. 3728, at §2(a)(2)(B).
126 H.R. 2196, at §2(e)(2) (appending to the statute section (e)(3)).
127 Universal Furniture Int’l, Inc. v. Collezione Europa USA, Inc., 618 F.3d 417, 435 (4th Cir. 2010).
128 Id. at 436.
129 See id.
130 S. 3728, at §2(e)(3)(A).
B. A Broken Industry: Why Furniture Needs Fashion

While the fashion industry is persistent in its pursuit of additional copyright protection, some in the industry strongly oppose the idea. However, the reasons for opposition may not be as strong when applied to the furniture industry.

The Washington Post questioned the fashion industry’s push for reform, stating, “perhaps the strongest argument is that America’s apparel industry isn’t broken—so why try and fix it?”131 Many proponents of reform cite the protections that the European Union offers fashion design.132 Steven Kold, director of the Council of Fashion Designers of America, and one of the strongest supporters of S. 3728 has stated, “America is the world leader in fashion . . . and yet it is basically the only industrialized country that does not include protection for fashion design.”133 Yet, if America’s fashion industry is doing so well, why change intellectual property laws to “mimic our lagging competitors?”134

This argument may hold merit in the fashion context. However, America’s furniture industry is in trouble. Unlike fashion, where copycats can make designs trendy and actually increase the original design’s value, cheaper furniture copycats leave the original design with no value. For example, consider Marie Claire magazine’s regular column called “Splurge vs. Steal,” where “[a] $195 Lilly Pulitzer halter top is compared with a $15.00 version by Newport News.”135 While the Lilly Pulitzer top “usually looks more tasteful or well-made,” some shoppers may opt for the cheaper version.136 However, many shoppers will still pay top dollar for the Lilly Pulitzer design. Will shoppers in furniture pay top dollar for upscale furniture designs if less expensive versions are available?

Even wealthy shoppers may look to copycat furniture producers for savings. Sara Morishige Williams, the wife of the co-founder of Twitter.com, a popular social networking website, has

---

133 Klein, supra note 131.
134 Id.
136 Id.
ordered “about 20 chairs and 26 sofa pieces based on designs from upscale retailers B&B Italia and Design Within Reach, among others” at a total cost of about $40,000 from Furniture Envy, a “custom” furniture producer. If Ms. Williams purchased the lowest priced sofa pieces and chairs from Design Within Reach, she would have spent an additional $30,000, for a total order of at least $70,000. Where is the incentive to invest in innovation, when copycat producers immediately undercut designers of original articles? An intellectual property attorney discussing this issue, argued that “[i]n tough economic times, companies cannot afford to take the risk in developing a new design and seeing if it will sell . . . . The lower cost, safer alternative is to instead knock off a bestseller.” One option for the furniture industry is of course to do nothing and rely on ornate furniture designs to pass the conceptual separability test for copyright protection and on “patent pending” warnings to deter copycats. Perhaps the new “custom” furniture companies will create enough jobs to compensate for the ones lost in the traditional furniture design industry. But with furniture manufacturing already moving offshore, design innovation needs to be protected in the United States. A September 2009 report by Anderson Bauman Tourtellot Vos (ABTV), a turnaround management firm headquartered in Greensboro, North Carolina, states that “[m]arketing [h]olds the [h]ope for [r]evival” of the furniture industry. ABTV recommends that “[f]urniture executives would do well to study the fashion industry, and to learn why women will pay $500 for a plain black dress when quite similar garments are to be had for $100 or even $50.” Some furniture companies may be able to create strong brands to drive this type of sale. However, branding did not win Sara Morishige Williams’ business when the same furniture could be custom-copied at a fraction of the price.

While branding and marketing are certainly great strategies, these efforts will go nowhere unless the furniture company has an innovative product to market. Custom furniture makers are certainly seeing success marketing their ability to make exact replicas of high-end designers at reduced prices. Furniture would do well to study the fashion industry, but not in terms of branding. Instead, furniture

137 Efrati, supra note 3.
138 See DESIGN WITHIN REACH, www.dwr.com (last visited November 19, 2010) (Sofa sectional pieces listed for $2,500 each and chairs range from about $250 to over $11,500).
139 Barnes, supra note 23.
140 ABTV, supra note 8, at 15.
141 Id.
should study the fashion industry’s intellectual property reform proposals.

Recall that the goal of copyright protection in the United States is “[t]o promote the Progress of Science and useful Arts . . . .”\textsuperscript{142} Congress needs to meet their Constitutional mandate to promote innovation in the furniture industry. Furniture designers who invest time, effort, and creativity to produce original designs are not being adequately protected under the current copyright laws. Furniture needs to become fashion-forward to ensure that buyers from around the world will still travel to High Point, Chicago, and Las Vegas, to see and purchase the newest innovative designs. It is essential that Congress preserves and promotes the incentive within the furniture industry to create these designs.

V. Conclusion

The furniture industry, like the fashion industry, has a growing number of copycat producers, due in part to the difficulty in obtaining intellectual property protection. Due to its functional nature, the vast majority of furniture is not protected by copyright or other intellectual property protections such as design patents, trademarks, or trade dress.\textsuperscript{143} Copyright protection is available to useful articles only to the extent that the article’s ornamental aspects are separable from its functional aspects.\textsuperscript{144} The separability test is often unpredictable and different circuits utilize numerous tests.

Design patents pose a similar issue as copyrights; they only protect new and ornamental designs where the ornamental aspect of the design is not “primarily dictated by functional considerations.”\textsuperscript{145} The current backlog in the United States Patent and Trademark Office is also a deterrent to relying on patents for protection.\textsuperscript{146} Trademarks and trade dress, while often a good option for the fashion industry, do not adequately protect the furniture industry due to the fact that only a handful of designs serve as source identifiers for furniture manufacturers.\textsuperscript{147}

The fashion industry’s proposals for copyright reform provide helpful insights into strengthening intellectual property protection in

\textsuperscript{142} U.S. CONST. art. I, § 8, cl. 8. 
\textsuperscript{145} Robins & Staba, \textit{supra} note 20. 
\textsuperscript{146} See United States Patent and Trademark Office, Patents Dashboard, \textit{supra} note 21. 
\textsuperscript{147} See Hicks, \textit{supra} note 22.
the furniture industry. Recent proposals to Congress, such as H.R. 2196 and S. 3728, could be adapted to the furniture industry to help close the industry’s gap in intellectual property protection and preserve the incentive for the furniture industry to invest in creating original designs. In order to revitalize the furniture industry and protect its original and innovative designs, the furniture industry should become fashion-forward.
COMMENT: WHO’S AFRAID OF THE BIG, FRIENDLY NONPROFIT? SABER RATTLING AND THE SAD STATE OF AFFAIRS FOR SMALL CHARITABLE NONPROFITS AND TRADEMARK LAW

Christopher T. Ward†

INTRODUCTION

“The Court struggles to understand how two charitable organizations, that exist solely to provide benefit to others, [have] permitted such a result that contradicts their underlying purpose . . . . Although the Court does not believe that this ruling achieves justice, this ruling follows the law.”¹

When charitable nonprofits are forced into trademark² fights, they are at risk of no longer being able to help their respective causes. For example, the phrases “Congenital Diaphragmatic Hernia Awareness,”³ and “Congenital Diaphragmatic Hernia Awareness

† Third-year student at Wake Forest University School of Law. The author would like to thank my son, Oz, who taught us so much in the brilliant ten hours he was with us before succumbing to CDH, and Kendrah, who continues to keep me going. The author would also like to thank Professors Simone Rose, Robert Rehm, and Dick Lupo, along with the Wake Forest Journal of Business and Intellectual Property Law Editorial Board, for all of their help, support, and feedback. For more information about CDH please visit http://cdhsupport.org.


² “Trademarks” are used in connection with goods while “service marks” are used in connection with services. Both trademarks and services marks will be referred to hereinafter as either “marks” or “trademarks.”

³ CONGENITAL DIAPHRAGMATIC HERNIA AWARENESS, Registration No. 3,503,325 (hereinafter the “CDH Awareness Mark”). When Breath of Hope, Inc. asserted this registered mark against a group known as “CHERUBS,” CHERUBS petitioned the Trademark Trial and Appeal Board of the United States Patent and Trademark Office (“TTAB”) to cancel the registration. The TTAB ruled
Day” were registered as marks by Breath of Hope, Inc. between September 2008 and May 2009. Congenital Diaphragmatic Hernia (CDH) is a condition that affects one in every 2500 children born around the world, yet it is hardly researched and carries a fifty-percent mortality rate. Raising awareness of a condition many laypeople have not heard of is a noble goal with a steep uphill climb. Using and registering a mark to prevent others from diluting the organization’s message are appropriate measures and common practice among nonprofit organizations.

Of course, the need to raise awareness and protect one’s ideas does not give an organization the ability to use and register whatever mark it wants. Breath of Hope, Inc.’s CDH Awareness Mark might not have survived scrutiny standing alone; however, the mark’s potential for protection was made even more unlikely in light of the more established CDH awareness and support group named CHERUBS. Both organizations are nonprofits operating on shoestring budgets, but CHERUBS was formed in 1995 and has been using the phrase “CDH Awareness” in its literature since 2000.

And so the curtain opens for discussion of a widespread problem. Legal rhetoric and theory certainly carry their weight before a judge or in law journals, but sound arguments only go so far for small nonprofit organizations that work within tiny budgets to provide the greatest good for those in need. Over time, a well-nurtured grassroots organization can become an international juggernaut. However, organizations like CHERUBS and Breath of Hope are fragile and can be toppled with the slightest pressure or the words “cease-and-desist.” When Breath of Hope began its saber rattling by asserting its CDH Awareness Mark, CHERUBS faced the real, dire possibility of having to shut their doors. Breath of Hope represented itself pro se defending CHERUBS’ petition to cancel the registration in favor of CHERUBS, and the Commissioner of Trademarks cancelled the registration on June 22, 2010.

4 CONGENITAL DIAPHRAGMATIC HERNIA AWARENESS DAY, Registration No. 3,624,962.
7 See infra notes 16–24.
8 See CDH Awareness Day, supra note 6.
for the CDH Awareness Mark, but Breath of Hope spent over a third of its annual budget only to abandon the mark after its motion to dismiss CHERUB’s petition was denied.\(^9\) Even if smaller charitable nonprofits have a legitimate claim against another company’s mark, in the current environment there is one specter that keeps them out of court: the cost of drawn out litigation.\(^10\)

This Comment explores the reality facing many small nonprofits: they are one cease-and-desist letter or lawsuit away from no longer being able to help people. Many organizations settle in the face of impossible legal fees, and as a result there is almost no case law analysis where larger organizations sue small nonprofits. Many entities, including corporations and large nonprofits, protect their marks fiercely and can crush smaller organizations by merely threatening the word “enjoin.”\(^11\) What could CHERUBS do if it had to face a larger organization with a war chest specifically reserved for trademark litigation? What if Breath of Hope had lawyers who would not file defective pleadings and hamstring its motion to dismiss? The CDH Awareness dispute might have had radically different results—even if CHERUBS was in the right.

In order to explore the threat to smaller organizations, Section I of this Comment first examines the competing interests of the Lanham Act and the First Amendment and how the existing dichotomy is affected by the purpose of 26 U.S.C. § 501(c)(3). It further asserts how nonprofit trademark disputes should be examined in light of First Amendment protection of charitable speech.\(^12\) Section II discusses the common rationales and claims used in trademark law and how they have grown to favor larger organizations instead of smaller nonprofits that cannot afford to go to court. Specifically, the Section examines recent trademark actions by the Susan G. Komen for the Cure organization and evaluates hypothetical claims Komen could raise for likelihood of confusion, dilution, and color marks to illustrate the imbalance of power between larger and smaller nonprofits.\(^13\) Section III examines available trademark defenses and how they apply to charitable nonprofits. Furthermore, this Section proposes a new balancing of trademark interests that will allow all sizes of organizations to continue to do good work, increase judicial

\(^9\) Id. Breath of Hope’s CDH Awareness Day mark is still active.


\(^11\) Id.

\(^12\) See infra notes 16–44.

\(^13\) See infra notes 45–139.
efficiency, and reduce attendant court costs. Finally, Section IV proposes ways to improve trademark litigation efficiency and accessibility. The current regime places unnecessary burdens on smaller nonprofits and does little to dissuade larger organizations from over-protecting their marks against small charitable nonprofits.

I. HOW CHARITABLE INVOLVEMENT CHANGES TRADEMARK ANALYSIS

The Lanham Act, 15 U.S.C. § 1051 et. seq., has been hailed as the legislation that greatly broadened the realm of trademark law. Both the idea of what can be trademarked and how it can be trademarked have changed significantly from the common law, and the Supreme Court has held that the law is inclusive as to what may be trademarked, as opposed to acting as a deterrent. As it currently stands, any word, symbol, name, or device capable of carrying meaning can be protected by a trademark. However, mark holders do not have limitless power under the Lanham Act to pursue other mark users. For example, the Act protects parodies and product comparisons from infringement liability. The rationale supporting this exception is widely accepted: some types of speech are so important that trademark law, which restricts speech, should not apply. Until the 1990s, courts almost always declined to use First Amendment protection for speech that arose in trademark disputes. The rationale given by earlier courts was that as long as there are alternative avenues for expression in order to advertise and attract customers, the First Amendment is not a valid defense.

However, as the new millennium approached, courts began to recognize the interplay of the First Amendment and trademark

---

14 See infra notes 140–79.
15 See infra notes 180–94.
17 Id. at 162 (quoting 15 U.S.C. § 1127).
19 See McGeveran, supra note 10, at 76.
21 Id.
rights. Although courts tend to limit their rulings so that the First Amendment is not directly used, courts have reaffirmed that freedom of expression is a tenant of American law. Trademarks can be renewed indefinitely, and a court’s ability to take words, images, and colors out of the marketplace for others to use must be handled with care.

Of course, the freedom of expression provided by the First Amendment is not universal. For example, the Amendment does not protect speech inducing fraud or illegal commercial transactions. Furthermore, speech can be regulated if the regulation is content neutral, the government has an interest unrelated to restricting the speech, and the restriction is narrowly tailored towards that interest. Most importantly to trademark law, commercial speech is not given the full weight of First Amendment protection. According to the Supreme Court, commercial speech is any speech which “propose[s] a commercial transaction” and is devoid of any other ideas. Examples of commercial speech include leaflets as well as print and television advertisements. As long as the commercial speech does not propose anything illegal, it is afforded qualified—though not complete—First Amendment protection.

The idea of commercial speech is important because trademark law is a valid extension of older common law and unfair competition claims. Traditionally, a mark holder seeks to use and register a mark to serve two purposes. First, marks allow consumers to quickly identify the source of products and services. Market identification is a key component in many trademark disputes when courts examine whether or not use of a mark creates a likelihood of confusion.

---

23 See McGeveran, supra note 10, at 98.
26 See id. (summarizing the Central Hudson and O’Brien tests).
27 See McGeveran, supra note 10, at 97.
29 See id. at 758–59, 789.
work harder and give consumers a positive association with the mark and the entity.\textsuperscript{32} While this would seem to create more of a property interest in the words because it is part of the entity’s brand, modern courts tend to err on the side of protecting speech when assessing the mark.\textsuperscript{33} However, the idea of a mark as a property interest is alive and codified in the Lanham Act’s dilution section. Under this section, a famous mark holder can, barring some restrictions, file a claim against a competing party whose mark might either tarnish the famous mark’s reputation or blur its meaning.\textsuperscript{34} With these two purposes combined, courts tend to say that the most important goal of trademark law is to protect customers from “bad” uses of trademarks.\textsuperscript{35} Ironically, when courts rule based on consumer interests the two parties arguing are not consumers. The mark holder and the party attempting to cancel the mark are present to protect their interests, but no one is there to argue for the public consumer.

When assessing the balance between trademark interests and First Amendment rights in a commercial nonprofit setting, the analysis is adjusted slightly. Unlike other commercial activity, charitable solicitation has been held by the Supreme Court to receive full protection under the First Amendment.\textsuperscript{36} In \textit{Vill}, the Court recognized that there are commercial elements to charitable work, including seeking donations and competing with other charities for consumer interest and dollars in the marketplace.\textsuperscript{37} However, the Court offered full First Amendment protection to a charity’s work because the commercial elements are too strongly intertwined with other compelling interests.\textsuperscript{38} Charities are aimed towards helping people and serving the public good, not making a profit. Thus, a charitable solicitation in the marketplace is not commercial speech because it does far more than suggest a commercial transaction.\textsuperscript{39} The \textit{Vill} decision is vital to charitable nonprofits in a trademark setting. Although courts shape their trademark rulings to avoid implicating the

\begin{itemize}
\item\textsuperscript{33} See McGeveran, \textit{supra} note 10, at 59–60.
\item\textsuperscript{34} 15 U.S.C. § 1125(c).
\item\textsuperscript{35} See McGeveran, \textit{supra} note 10, at 66.
\item\textsuperscript{36} See \textit{id.} at 632, 636.
\item\textsuperscript{37} See \textit{id.} at 632.
\item\textsuperscript{38} See \textit{id.} at 632.
\item\textsuperscript{39} See \textit{id.} at 632.
\end{itemize}
First Amendment,\textsuperscript{40} Vill illustrates that First Amendment protection is a key component to a charitable nonprofit’s speech. The trademark protection-free expression balance must be shifted in the charitable nonprofit’s favor.

This view is bolstered by the fact that charitable nonprofits must follow very specific guidelines in order to be considered nonprofit organizations. As a creature of the tax code in 21 U.S.C. 501(c), charitable nonprofits are required to serve the public good instead of themselves. They rely on the giving of others and are rewarded with a favorable tax status.\textsuperscript{41} Of course, not all individual charities are created equal—some serve the “good” more than others—\textsuperscript{42} but despite their contribution to the public good they are far less of a commercial enterprise than two clothing manufacturers fighting over a mark used on articles of clothing.\textsuperscript{43} Solicitation for donations, advertising, and publicity are all means to an end of helping others, not means to attain a profit. Courts often get bogged down in very fact-specific inquires when determining trademark cases,\textsuperscript{44} but there is one overarching fact that cannot be ignored: Charitable nonprofits are required to act in accordance with section 501(c)(3), or they risk losing their nonprofit status. Therefore, these charitable nonprofits’ humanitarian motives and nonprofit methods must be part of the trademark analysis.

In the tug-of-war between competing speech protection and consumer protection interests, charitable nonprofits stand on different footing than their commercial counterparts. Courts should be more open to allowing free expression when analyzing a charitable nonprofit’s use of a mark. However, as the next Section shows, courts tend to turn to other very time consuming questions that both prolong litigation and give the advantage to larger charitable nonprofits.

\textsuperscript{40} Universal Commc’n Sys., Inc. v. Lycos, Inc., 478 F.3d 413, 425 (1st Cir. 2007); see McGeveran, \textit{supra} note 10, at 98 (citing Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23, 36 (2003)).


\textsuperscript{44} See McGeveran, \textit{supra} note 10, at 66–69.
II. THE NOT-SO-FRIENDLY SIDE OF NONPROFIT WORK: TRADEMARK CLAIMS

Asserting marks in order to protect one’s brand makes as much sense to nonprofit organizations as it does to private corporations or other entities: plenty. But the ugly side of asserting marks is that nonprofits also are pulled into court either to assert them or to defend them. For example, two organizations, “Sunshine Kids Foundation” and “Sunshine Kids Club of California,” ended up in court due to donors unintentionally sending money to the California organization instead of the Foundation in Texas. The California Club helps children with and without disabilities, while the Texas Foundation helps children with cancer. The California Club was forced to change its name to “Sunshine Connection” after being blindsided by the lawsuit, and the legal battle drained the Connection’s resources and caused them to suspend programs. How much can litigation cost nonprofits? As of this writing, two organizations supporting wounded veterans, Wounded Warriors, Inc. and Wounded Warrior Project, are locked in a court battle over the domain name woundedwarriors.org and have amassed over $2.2 million in litigation costs. Donations given to help support these organization’s causes are being siphoned into the litigation machine all in the name of trademark protection.

Probably the most interesting, or terrifying, turf war in the current nonprofit trademark landscape involves the Susan G. Komen Breast Cancer Foundation, Inc. (“Komen”). The organization, founded in 1982, has grown into a worldwide organization synonymous with breast cancer awareness and research. As of 2010, Komen has raised over $1.5 billion for breast cancer research while building a strong community to help people with and affected by breast cancer. However, Komen has taken steps to protect its brand by filing hundreds of federal trademark registration applications and going after organizations using the color pink or various constructions.

46 Id.
of “for the cure.”50 Many of the target organizations are small and do not have the means to stand up to Komen.51 But, “Uniting Against Lung Cancer” made headlines by refusing to acquiesce to Komen’s demands to not use pink or rename its “Kites for a Cure” event in order to help raise funds for lung cancer awareness and research.52 The sides eventually agreed to limit “Kites for a Cure” to lung cancer activities, which, incidentally, was what the event was all about.53 However, other groups and events, such as “Kayak for a Cure,” “Juggling for a Cure,” “Bark for the Cure,” and “Blondes for the Cure,” received the same cease-and-desist letter from the Komen organization.54 Suddenly, small organizations who tried to hold an event or create an organization in order to help find a “Cure” faced the peril of an international nonprofit like Komen claiming its turf.

The purpose of this Section is twofold. First, it examines Komen’s current trademark registration filings55 and assesses how Komen could assert and protect its trademarks. This serves as a model for exploring the current use of the Lanham Act’s protections in a nonprofit context. Second, this Section compares Komen’s potential trademark disputes to the conflict between CHERUBS and Breath of Hope.

A. Susan G. Komen for the Cure’s Marks and the Big Bad Lanham Act

The best place to start is Komen’s signature trademark that appears all over its website and promotional materials—the word mark for “Susan G. Komen for the Cure.” There is both a standard character mark56 and a mark for the internationally recognized Komen insignia complete with a ribbon depicting a person running.57 Registration applications for both marks were filed on February 26,
2006, and the marks were registered with the United States Patent and Trademark Office on October 9, 2007. The marks were first used in commerce on January 22, 2007.\textsuperscript{58} There is also a third mark that was issued on the same day depicting “Susan G. Komen Race for the Cure” with a similar partially shaded ribbon to the left of the wording.\textsuperscript{59}

Although none of these marks have been active long enough to trigger the incontestability rule,\textsuperscript{60} there are two very significant details in each of the filings. First, color is not claimed as any part of the registered marks.\textsuperscript{61} This makes sense, as it keeps the marks’ protection broad and allows Komen the flexibility to use different colors in its materials. Second, none of the words in the marks is disclaimed, including the phrase “for the Cure.”\textsuperscript{62} The Komen marks tend to show a rebranding of the organization from its older 1985 logo which used a silhouette of a woman encircled by the words “Susan G. Komen Foundation.” The 1985 mark is still active, and its corresponding registration was renewed April 28, 2006.\textsuperscript{63}

Hypothetically, to assert its marks, Komen would rely upon the provisions in the Lanham Act protecting a mark from consumer confusion\textsuperscript{64} and market dilution.\textsuperscript{65} Komen would also likely use the Act to claim it is entitled to a mark on the color pink.\textsuperscript{66} Should these claims be challenged by a competing mark holder, the court would apply the standard likelihood of confusion analysis unique to its jurisdiction.

\textbf{B. Likelihood of Confusion}

A potential Komen claim for likelihood of confusion would be similar to the situation between CHERUBS and Breath of Hope. Like Komen, these CDH organizations use specific language to solicit donations for their causes: an example is “for the Cure” for breast

\textsuperscript{58} See \textit{supra} notes 56–57.
\textsuperscript{59} SUSAN G. KOMEN RACE FOR THE CURE, Registration No. 3,424,712.
\textsuperscript{60} See \textit{generally} 15 U.S.C. § 1065 (2010) (a trademark in use that has been registered and undisputed for five years is presumed to have secondary meaning and is deemed incontestable, which bars any attacks on its distinctiveness).
\textsuperscript{61} See \textit{supra} notes 56–57, 59.
\textsuperscript{62} Id.
\textsuperscript{63} SUSAN G. KOMEN – FOUNDATION & Design, Registration No. 1,955,572.
\textsuperscript{64} See \textit{infra} notes 67–92.
\textsuperscript{65} See \textit{infra} notes 93–99.
\textsuperscript{66} See \textit{infra} notes 100–138.
cancer and “CDH Awareness” for CDH. If the CDH conflict had gone to trial, a court would have examined the likelihood of confusion between the two marks just like it would with anyone attempting to use Komen’s “for the Cure” marks. And although the “CDH Awareness” dispute in the introduction and the disputes around Komen’s trademark portfolio are wide apart in scale, a court would apply the same likelihood of confusion test when examining each use of the marks.

Because there is a vast number of charitable organizations using similar names or fighting for similar causes, claims of consumer confusion are very common in the nonprofit context. Many courts have had little trouble finding consumer confusion when nonprofit word and design marks are involved.67 The prevailing theory worries that if consumers are confused as a result of a misused trademark, they might unintentionally donate their money to the wrong organization, and as a result the original mark holder is damaged.68

However, many legal scholars have pointed out that courts have depicted consumers as virtually incapable of sorting between different marks on their own.69 According to these courts, easy access to resources like print advertising and the Internet have only added to consumer confusion.70 In some nonprofit cases there have already been incorrect donations, and in those cases the likelihood of confusion was not questioned by the court.71 Of course, a showing of actual confusion has never been required to show consumer confusion.72 Unfortunately, when the facts do not show actual confusion, the “incapable consumer” concept has been so ingrained in case law that consumer confusion analysis turns on a series of factors that strongly favor the mark holder.

Under the Lanham Act, different circuits have created multifactor tests to determine whether or not there is a likelihood of confusion.73 And while there are different tests floating around, they

---

70 Id.
71 WWP, Inc., 566 F. Supp. 2d at 975.
73 Compare Reed-Union Corp. v. Turtle Wax, Inc., 869 F. Supp. 1304, 1307 (N.D. Ill. 1994), aff’d 77 F.3d 909 (7th Cir. 1996), with Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492, 495 (2d Cir. 1961) (proposing a seven factor test in Reed and an eight factor test in Polaroid. Reed’s seven factor test looks for (1) similarity...
do share some traits in common. For example, no single factor is dispositive.\textsuperscript{74} Furthermore, the importance of each factor is weighed on a case-by-case basis, and there is little uniformity from circuit-to-circuit as to how each factor should be applied.\textsuperscript{75} However, two of the more significant factors for nonprofits to consider are “similarity of product” and “area and manner of concurrent use.”\textsuperscript{76} Ideally, similar trademarks, words, phrases, or brands should not interfere with each other if they are used in different market areas for different purposes. However, courts have found similar use of language in products geared towards different end users to be trademark infringement.\textsuperscript{77} Courts have also found confusion when very different products are in competition with each other.\textsuperscript{78} When both factors are met, such as between two nonprofit charities looking for cures of a disease by raising funds for research and awareness, courts tend to require a substantially lower showing to find a likelihood of confusion.\textsuperscript{79} The remaining question facing Komen’s attempt to protect the “for the Cure” portion of its mark is whether a smaller challenged organization needs to be raising funds to cure breast cancer in order for there to be a likelihood of confusion.

One instructive conflict arose between the “Cancer Research Institute” and the “Cancer Research Society.” The defendant’s original name was “United Cancer Research Society,” but the Institute did not dispute the Society’s name until the Society dropped the word “United” from its name.\textsuperscript{80} The Institute successfully stopped the Society from infringing its trademark in part because there was a great

\begin{thebibliography}{99}
\bibitem{note2} \textit{Id.}
\bibitem{note3} \textit{Reed-Union}, 869 F. Supp. at 1307.
\bibitem{note4} \textit{Marathon Mfg. Co. v. Enerlite Prods. Corp.}, 767 F.2d 214, 218–20 (5th Cir. 1985) (a dispute over MARATHON and MARATHON 10 batteries, although the batteries were for very different purposes).
\bibitem{note5} \textit{Florence Mfg. Co. v. J.C. Dowd & Co.}, 178 F. 73, 75 (2d Cir. 1910) (conflict between “Keep-clean” brushes and “Sta-Kleen” toothbrushes).
\end{thebibliography}
likelihood of confusion. Not only were the names similar, both nonprofits were fundraising for cancer research. Their purposes were aligned, and that was enough to show confusion. However, having similar language, standing alone, is not enough. The similar language must also be presented in a way where it would likely to cause confusion among potential consumers as to the source of the respective goods or services.

Some courts have also been willing to consider how consumers would spread the reputation of the mark holder by word of mouth. These courts found an increased likelihood of confusion when one mark was famous. For example, when a mark is famous, consumers are far more likely to associate similar usage to the famous mark’s holder. The words do not have to be the exact same, so substituting “a” for “the” does not save another organization from infringement. Komen, if it chose to assert its trademark, would argue that as a national organization, potential donors who recognize its mark would see “Kites for a Cure” or “Blondes for the Cure” and assume the events are associated with Komen and its “Race for the Cure” trademark. As a result, Komen would assert that there is a strong enough likelihood of confusion to warrant a finding of trademark infringement in the broadest market sense possible.

However, the multi-factor tests also address the relationship in the marketplace, and courts would likely not turn a blind eye to “Kites for a Cure” raising money for lung cancer research. Since the diseases are different, there is a possibility that Kites’ usage might not infringe on Komen’s mark depending on how the court chooses to weigh the factors. However, small organizations trying to raise money and awareness, and provide support for fighting breast cancer, would be in much greater peril—especially if the organization was aware of Komen. Not only would they share a number of characteristics with

81 Id. at 1056.
82 Id.
84 Virgin Enters., Ltd. v. Newab, 335 F.3d 141, 149 (2d Cir. 2003).
85 Id.
86 Id.; however, others might see this argument as one for dilution, not confusion.
88 And with the amount of donations Komen receives every year, there is a good possibility it could find donors who accidentally gave to the wrong “for the Cure” group and be able to show actual confusion in some cases.
89 See generally supra note 74.
90 See Marks, supra note 47 (“Some charities, such as ‘Juggling for a Cure,’ say they weren’t aware Komen used a similar slogan. Others, including ‘Kayak for a Cure,’ say they were aware of Komen’s name.”).
Komen, but they would also be competing for the exact same space in the marketplace. And because Komen is a well-known international organization, the likelihood of confusion only increases.91

A similar analysis applies to the dispute involving the CDH Awareness Mark. Although CHERUBS and Breath of Hope are smaller organizations, a likelihood of confusion analysis focused on the CDH Awareness Mark could also be applied to the dispute and each would litigate on a number of factors. Both organizations are competing in the same marketplace, looking for the same donors, and have a similar level of notoriety. When each organization uses the CDH Awareness Mark or any mark similar thereto, it is looking to build awareness of the CDH condition. Because of these similarities, CHERUBS would be in a similar position to Cancer Research Institute as the first organization to use a mark similar to the asserted mark at issue. This would favor CHERUBS’ attempt to remove Breath of Hope’s trademark. Furthermore, both organizations will use the word mark in a similar way and for a similar purpose.92 Both CHERUBS and Breath of Hope use marks including the term “CDH Awareness” to raise awareness through fliers, rallies, outreach, and other solicitation for families and individuals affected by CDH.

Most significantly in this dispute, a court would need to pay special attention to how a consumer would perceive either organization’s use of the term “CDH Awareness.” As charitable nonprofits, neither organization is out to sell consumers a product. Instead, the organizations are reaching out to people in need of help in a time of crisis after a devastating diagnosis or child loss. A consumer is unlikely to investigate multiple CDH charities after seeing the word mark. Instead, the person affected by CDH would likely be thankful that someone recognizes and understands what he or she is going through. Thus, a consumer might see the term “CDH Awareness” and not investigate the service organization using the mark. This favors CHERUBS in a likelihood of confusion analysis, but they must prove it in court.

In fact, other factors like actual confusion, the strength of the word mark, and the defendant’s intent would require a more substantive investigation than what is available on record for the dispute at the dismissal stage. If the case had proceeded further, a

91 Virgin, 335 F.3d at 149.
92 See Rd. Dawgs Motorcycle Club of the U.S., Inc. v. “Cuse” Rd. Dawgs, Inc., 679 F. Supp. 2d 259 (N.D.N.Y. 2009) (infringement found when one organization used “Road Dawgs” to attract bikers in the same geographic location as a nonprofit biker organization with a similar name, lettering, and logo).
A court or a jury would likely see a number of factors that weigh in CHERUBS’ favor. However, the court or jury would have discretion to weigh different likelihood of confusion factors according to the facts of the dispute.

Meanwhile, a larger charitable nonprofit like Komen could seek to enjoin other organizations from using “for the Cure.” Komen was not required to disclaim the words “for the Cure,” and therefore was permitted by the trademark office to claim the phrase as part of a mark instead of keeping it open to the public. Because Komen is a well-known international organization, it may have staked out its space as the sole organization that can raise money and provide awareness and support for breast cancer. That said, just because Komen could be successful on defending its mark on one claim under current law does not mean it might not try to bolster their case with other methods. Another theory Komen would try to use is market dilution.

C. Market Dilution

One of the goals of Komen’s constant presence in the marketplace is to have people associate its name, its symbols, and the color pink with breast cancer awareness and the Komen organization. However, Komen would look to the Lanham Act to stake out as much marketing territory as possible in order to prevent smaller organizations from chipping away, or diluting, the brand it has spent millions to build. Dilution claims under the federal trademark dilution statute, 15 U.S.C. § 1125(c), are commonplace for national and international organizations of Komen’s size and notoriety. The rule is meant to protect larger entities that have put time and effort into building their brand from others trying to free ride by wrongfully using an established, highly recognizable trademark. Thus, this rule would not likely apply to smaller organizations like CHERUBS or Breath of Hope.

If a sufficient number of smaller entities were able to chip away at a mark owned by a larger entity, eventually the mark’s value could be harmed beyond repair. However, scholars have criticized the rule as being overinclusive because even the smallest potential dilutions can be attacked by section 1125. Furthermore, just because someone else uses words similar to those of an established trademark

---

94 See Gerhardt, supra note 69, at 443–44.
95 Id. at 444.
96 Id.
does not mean smaller organizations or later users are lazy or are trying toexploit the original trademark’s goodwill.97

Although section 1125 allows for injunctions against people making malicious or false use of trademarks, the more significant question is how far mark dilution can reach. There is one significant difficulty in enforcing dilution in a charitable nonprofit context: Section 1125(c) of the Lanham Act states that a dilution claim can only be brought in a commercial setting.98

Charitable nonprofit work is not the kind of work that only contemplates a commercial transaction,99 and as a result courts would be unlikely to allow an organization like Komen to pursue a federal dilution claim against smaller nonprofits because it operates outside the commercial setting.100 Thus, even if Komen felt its mark was being chipped away by smaller groups like CHERUBS, Breath of Hope, or events like Kites for a Cure, Komen would be forced to pursue other means to stop smaller nonprofits from encroaching on its marks.

D. Prior Use in Market & the Color Pink

A final, important question for Komen, if it were asserting its trademark, would be whether it could prevent other organizations from using pink by asserting that use by Komen of the color pink in connection with its business constitutes use as a mark. Although it may seem like an extreme step, there are plenty of examples of colors being used and registered as marks throughout industry.101 While many nonprofit cases have involved similar designs and use of color and lettering,102 Komen’s goal is distinguishable because it would only wish to use one single color as an identifying mark. The Supreme Court has weighed in on whether a color by itself can be trademarked

97 Id. at 444–45.
98 15 U.S.C. § 1125(c)(1) (2006) (“[T]he owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner’s mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.”).
99 See supra notes 35–42.
100 See McGeveran, supra note 10, at 105–06 (discussing Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894, 905–07 (9th Cir. 2002)).
in the famous and controversial *Qualitex* case. In the case, Qualitex used a special green-gold color for its laundry press pads, and a competitor was attempting to use the same color for its own press pads.

The Court allowed registration of the mark at issue in *Qualitex* because the Lanham Act broadened the common law definition of what marks could be registered. However, the Court held that if a color was aesthetically functional, it could not be registered because removing it from the marketplace would be too damaging. In so holding, the Court also rejected a number of counterarguments, including the idea that there is a limited amount of colors available, and also that uncertainty in the law is created by allowing color trademarks because the same shade changes appearance in different light. In the end, the Court found two major hurdles that a color has to overcome in order to get registered: it must not be functional so that production would limit competition, and it must have acquired a secondary meaning.

Komen might have trouble with the non-functional requirement of its pink mark. Courts have repeatedly held that a functional color is one whose removal from the market would keep others from competing with the mark holder. The danger of allowing a functional color to be registered is that, unlike patents and copyrights, a trademark can be renewed *ad infinitum*. Thus, the color would be removed from the marketplace entirely, as long as the registrant continued using that mark in interstate commerce in connection with the corresponding goods or services. For example, in *Brunswick Corp. v. British Seagull*, there was a dispute about whether Mercury could register the color black for its motorboat engines when other companies used the same color. Although Brunswick was willing to limit the trademark to a very narrow, specific color of black, the court did not allow the mark to be registered. The court held black to be aesthetically functional because many people want their motorboat to have an engine that compliments the color of the boat. If black were unavailable, then other competitors would be at a serious

---

103 *See Qualitex*, 514 U.S. 159.
104 *Id.* at 161.
105 *Id.* at 162–63.
106 *See id.* at 170.
107 *See id.* at 167–74.
108 *Id.* at 166–68.
109 *See Brunswick Corp. v. British Seagull Ltd.*, 35 F.3d 1527, 1532 (Fed. Cir. 1994) (citing *In re* R.M. Smith, Inc., 734 F.2d 1482 (Fed. Cir. 1984)).
110 *Brunswick*, 35 F.3d at 1529.
111 *Id.* at 1533.
disadvantage in the motorboat industry.112 Thus, because the color black served a specific function, registration of the trademark was denied.113

Conversely, a color can be registered when the color has no functional aspect and would not block other competition. In In re Owens-Corning, a registration for the color mark pink was allowed for a company’s insulation because other customers had come to recognize the pink insulation with the Owens-Corning brand.114 The court determined that dying the insulation pink served no functional purpose, aesthetic or otherwise, but instead only distinguished the product in the marketplace.115 Furthermore, the pink insulation did not inhibit competition in the insulation industry.116 As a result, the mark was upheld because the color was both non-functional and source identifying.117

What is clear from the cases and commentary is that the non-functional requirement is directly intertwined with economic and market competition considerations. Third parties can oppose the trademark, as was the case in Brunswick, but the more likely scenario is that a number of affected third parties will not be informed of any color trademark until the mark is asserted against them. From there, an organization is faced with a choice: reevaluate, and change its entire marketing scheme, or plow forward and challenge the trademark. Charitable nonprofits, many of which work on small budgets, would face a harsh economic loss either way because color is a major source of promotion, marketing, and brand recognition. An organization challenging Komen could argue that pink is associated with women, and denying the use of pink takes a highly associated and recognized color out of the marketplace. Unfortunately, Komen could probably successfully persuade many organizations to use a color other than pink by sending each of them a cease-and-desist letter.118

Of course, there is another requirement Komen would need to hurdle: pink must have acquired secondary meaning.119 Like words, logos, and other items subject to trademark protection, a color gains

112 Id.
113 Id.
114 See In re Owens-Corning Fiberglas Corp., 774 F.2d 1116, 1118 (Fed. Cir. 1985), abrogated on other grounds by In re Haruna, 249 F.3d 1327 (Fed. Cir. 2001).
115 Id. at 1122–23.
116 Id. at 1121.
117 Id. at 1128.
118 See Marks, supra note 47.
119 Owens-Corning, 774 F.2d at 1118.
secondary meaning when, in the mind of the consumer, the color is directly associated with the mark holder as the source of the related goods or services.\footnote{120} A secondary meaning that only refers to an underlying idea or industry is not enough—the secondary meaning must refer to the product producer or service provider.\footnote{121} Thus, in order for Komen to show that its use of pink has acquired a secondary meaning, Komen must show that people associate the color with the Susan G. Komen organization. Only evoking “breast cancer awareness” or “curing a disease” is not enough.

One recent relevant example is the dispute between a number of universities and Smack Apparel.\footnote{122} In the Smack case, a clothing designer created shirts indicating famous games in college football history and used the colors of the school, such as gold and crimson for the University of Southern California, and a phrase referring to the game itself.\footnote{123} At no point were the schools mentioned by name, but the products were sold in the same stores where officially licensed university apparel was sold.\footnote{124} The court agreed with the universities that they had a very strong claim on their unregistered color combinations due to their use of the colors for over one hundred years.\footnote{125} This, combined with Smack’s admission that it intentionally used the universities’ colors to improve sales of its product, led the court to find infringement.\footnote{126} While there is little surprise in the Fifth Circuit’s decision based on Smack’s admission, the court’s discussion of color trademarks and market competition provides a glimpse of how a court would evaluate Komen’s color trademark.

A secondary meaning analysis would run slightly differently in Komen’s case because Komen is only registering pink and the universities were asserting a trademark for color combinations.\footnote{127} Still, a number of factors that influenced the Smack court would be in play for Komen. First, the court referenced the Qualitex decision and explained that the scope of what may be registered is very broad under

\footnote{120} See Abercrombie & Fitch Co. v. Hunting World, Inc., 537 F.2d 4, 9–10 (2d Cir. 1976).
\footnote{121} Id.
\footnote{123} Id. at 471–74.
\footnote{124} Id.
\footnote{125} Id. at 479.
\footnote{126} Id. at 482; see also id. at 487–88 (rejecting the concept of aesthetic functionality).
\footnote{127} Id. at 472.
the Lanham Act. Thus, the court moved immediately to whether the colors acquired secondary meaning by using a multi-factor test. The court used evidence of advertising of the colors, used since the late 1800s, and gave weight to how prominently the colors were used in merchandise. In addition, the court viewed Smack’s admission of using the colors to indicate the universities as evidence that even Smack believed the colors had secondary meaning.

When Smack presented evidence showing local businesses also used the universities’ colors, the Fifth Circuit rejected the argument that the businesses were also violating the trademarks because they were not competing in the same business space by selling shirts. Thus, there was secondary meaning in the colors and the court moved to a likelihood of confusion analysis to determine whether there was infringement by Smack.

If a court analyzing Komen were to go through an analysis similar to that used by the Smack court, it would not have the advantage of over a century of using the color pink. However, the other factors outlined by the Smack court would weigh in Komen’s favor. Komen uses pink in its logo and in its ribbon in advertisements around the world. The Komen organization receives millions of dollars in donations every year and uses the color pink to help solicit those donations. Furthermore, the Komen organization receives a lot of unsolicited press coverage of its events and its use of pink is further sent out to the public. As the factors are applied in Smack, Komen would have a strong case for claiming its use of pink has acquired secondary meaning.

Unfortunately for smaller charitable nonprofit organizations, the Fifth Circuit’s analysis outlines a broader problem courts confront in determining secondary meaning. Courts readily admit that determining secondary meaning is not a perfect science, but when there is consumer testimony, both sides are faced with a battle of the experts to show whose data is more credible. Thus, smaller

128 Id. at 476.
129 Id. at 478–84.
130 Id. at 476–78.
131 Id. at 478.
132 Id. at 479.
133 Id. at 478.
135 Id.
136 See McGeveran, supra note 10, at 70 (discussing Indianapolis Colts, Inc. v. Metro. Balt. Football Club Ltd. P’ship, 34 F.3d 410, 414–16 (7th Cir. 1994)).
nonprofits are dragged into an expensive fight by necessity to prove a number of fact intensive factors. Furthermore, the test for secondary meaning, at least in Smack, is very similar to the test the court uses for consumer confusion.\footnote{Bd. of Supervisors, 550 F.3d at 475–76 (using similarity of the colors, use in the marketplace, and consumer opinion on what the colors represent to determine source identification).} If the larger organization has spent a lot of time and energy marketing its color, then courts tend to use the same factors to find the mark distinctive and the infringement confusing to customers. The one saving grace for smaller organizations is that the Smack holding limits the color infringement to use in the specific industry.

In a nonprofit charity universe where organizations are scrambling for donors’ dollars, the definition of competition in the marketplace could arguably be far broader than in Smack. Instead of simply selling similar items in the same sporting good stores, a larger organization like Komen could attempt to block other organizations from not only using pink to solicit donations for breast cancer, but also to stop them from using pink to help find cures for diseases in general. The fight between a larger and smaller organization would be about the scope of the marketplace. Unfortunately for Komen, courts tend to limit color trademarks as narrowly as possible.\footnote{See, e.g., Brunswick Corp. v. British Seagull Ltd., 35 F.3d 1527, 1533 (Fed. Cir. 1994).} Thus, Komen could possibly get protection from other organizations using pink to raise money for breast cancer, but its reach could not likely extend to other charitable causes.

Even if the law is on a small charitable nonprofit’s side, Komen is not prevented from sending cease-and-desist letters to other organizations to bully them into not using pink.\footnote{See Marks, supra note 47.} If a letter is ineffective, Komen could always attempt to drag an “uncooperative” organization into a trademark infringement suit over color. Even if the smaller charitable nonprofit could win under the law, it would still be crushed by the slow, inefficient, costly, and fact-intensive structure of modern trademark litigation. This was the risk organizations like CHERUBS and Sunshine Connection faced, even when they were only facing a similarly situated charitable nonprofit. As the next Section shows, the current structure of trademark law—especially in the likelihood of confusion context—makes it difficult for a small nonprofit to defend its trademark rights without incurring crippling costs.
III. THE FUNCTION OF TRADEMARK DEFENSES IN A NONPROFIT CONTEXT

In order to examine the trademark defenses in a nonprofit context, it is important to reemphasize some of the principal problems in applying the Lanham Act. Obviously, there is just as much potential for disparity in financial resources in charitable nonprofit trademark disputes as in a commercial setting. Some nonprofits operate on miniscule contributions, while others receive millions in donations each year. Oftentimes, a simple cease-and-desist letter is sufficient to get the smaller organization to cave in to the larger organization’s interest, even when the law would side with the smaller entity.\(^{140}\) Even if both parties pursue litigation, the result is a long, expensive conflict riddled with multi-factor tests. Furthermore, trademark protection is caught in constant tension with the First Amendment. While courts structure their rulings to avoid directly using the First Amendment, courts accept the reality that the First Amendment is part of the trademark equation.\(^{141}\) In a charitable nonprofit conflict, the competing interests are balanced a little differently because charitable speech is not considered commercial speech under the First Amendment.\(^{142}\) But while the speech is intertwined with charitable interests of serving the public good, courts also examine how trademarks influence charities’ ability to solicit donations and function in the marketplace.

In other words, charitable nonprofits find themselves in just as murky a quagmire as other parties staving off infringement claims. Two of the most problematic defenses for charitable nonprofits to assert and sustain are fair use and genericism. These defenses are not problematic because trademark defendants cannot win with them.\(^{143}\) Instead, they are problematic because they are inefficient and contribute to the problem of charitable nonprofits being ground to mincemeat by the trademark litigation machine. This Section first explores issues surrounding the implementation of a fair use defense. While many smaller nonprofits use of others’ trademarks may qualify for the fair use defense, nonprofits cannot afford to assert the defense because jurisdictions require the organization to first disprove likelihood of confusion. Next, this Section discusses how trademarks can become generic. Genericide is a huge problem because it forces

\(^{140}\) See McGeveran, supra note 10, at 62–63.

\(^{141}\) See generally id. at 98–104.

\(^{142}\) Vill. of Schaumburg v. Citizens for a Better Env’t, 444 U.S. 620, 632 (1980).

\(^{143}\) See McGeveran, supra note 10, at 59.
larger organizations like Komen to divert donations to actively defending their marks.

A. Fair Use

It does not seem entirely fair to allow one organization, Breath of Hope, to use the phrase “CDH Awareness” and prevent another organization, CHERUBS, from using the same phrase when it is necessary to both of their missions. Yet every day, many small nonprofits face trademark litigation because other organizations stake their claim on snippets of language. One defense available to charitable nonprofits in this context is fair use.

There are multiple avenues for reaching some kind of fair use, but until the *KP Permanent Make-Up* decision, many trademark defendants were required to fight all the way through the consumer confusion test before asserting a fair use defense.144 In *KP Permanent Make-Up*, two companies were in conflict over the terms “microcolors” and “Micro Colors” in reference to permanent make-up. They were in close competition because their respective permanent make-up products were targeted towards persons looking to cover up injuries or skin maladies.145 The Ninth Circuit held the defendant needed to show there was no consumer confusion before it could raise a fair use defense.146 In its landmark ruling, the Supreme Court unanimously reversed the decision and held a fair use defense could succeed even when there was some confusion present.147 Thus, more charitable nonprofits have a chance at defeating a trademark infringement claim by fair use because there is no longer a requirement to show that consumer confusion is not likely.

The classic first step in examining a fair use defense is the structure under section 33(b)(4) of the Lanham Act.148 Scholars have pointed to the Seventh Circuit as having the clearest judicial articulation for the statutory language by parsing it down to a three part test: non-trademark use, descriptiveness, and good faith.149 To use the Komen hypothetical again, a defendant might first show a non-trademark use of “for the Cure” or “for a Cure” by alleging the mark is not being used as a trademark, but as a description of the planned

145 Id. at 114–15.
146 Id. at 116.
147 Id. at 118–19.
149 See McGeveran, *supra* note 10, at 82 (citing Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 951 (7th Cir. 1992)).
event, such as “Kites for a Cure,” or the purpose of the group. The same would apply to Kites’ use of pink and CHERUBS’ use of the phrase “CDH Awareness” as simply a description of what the organization is trying to raise.

In order to determine the second requirement, descriptiveness, it is important to first answer whether the use in question is expressive or not. As a general premise, an expressive mark does not identify its source, and as a result does not carry any secondary meaning. Instead, it expresses its own idea.150 A defendant would claim its use of “for the Cure” and the color pink are merely expressive, and a nonprofit would make a similar argument regarding a word mark like “CDH Awareness.” Each phrase is allowed to carry its own meaning, and the scales should be tipped more towards free expression than language control in a nonprofit setting. After all, “for the Cure” implies the goal is to cure an illness, and the illness is not limited to breast cancer. “CDH Awareness” only refers to awareness of the condition, not the Breath of Hope organization.

However, if a court were inclined to find pink is source-identifying due to the work Komen has done to place it in advertising, a court would very likely limit the color’s trademark to narrow circumstances: raising money for breast cancer awareness, outreach, and research.151 Furthermore, a court might find pink to be functionally aesthetic because of its association with femininity. Blocking others from using it in tandem with diseases that affect women would be too limiting to other charitable nonprofits.152

The final good faith requirement is especially important because it deters defendants from inappropriately using marks. However, the reach might not extend far as necessary in any hypothetical Komen litigation. No doubt, some groups using “for the cure” language or using the color pink were already aware of Komen’s use of the phrase and color.153 However, these groups are not going to capitalize on the marks like corporate groups would in a commercial setting. Instead, they are raising money to help causes. This is an especially important consideration with CHERUBS. So few people know what CDH is that the phrase “CDH Awareness” is vital to

150 McGeveran, supra note 10, at 82.
151 See generally Brunswick Corp. v. British Seagull Ltd., 35 F.3d 1527, 1533 (Fed. Cir. 1994). It is worth mentioning that the Federal Circuit decided the Qualitex case, allowing color trademarks, and then has rejected many color trademark claims. One reason is because the trademark needs to be narrow in order to allow competition.
152 Id.
153 See Marks, supra note 47.
outreach. CHERUBS is not trying to ride the coattails of Breath of Hope or any other organization by using the phrase.

While some courts worry about potential for donor confusion, the Supreme Court has spoken in *KP Permanent Make-Up* and ruled some confusion is permissible. Unlike other charitable nonprofit cases, “for the Cure” is used both by Komen and other organizations in conjunction with another idea like a race or kite flying. It does not stand on its own, but instead is short and to-the-point. The same idea applies to the phrase “CDH Awareness.” The language itself only points to the condition and awareness, not Breath of Hope or CHERUBS specifically. Unlike the mid-80s and early-90s, courts today do not require trademark defendants to find alternate language. In a charitable nonprofit setting, a court would be more likely to let the expressive language “for the Cure” and “CDH Awareness” stand if the defendant or petitioner acted in good faith.

Of course, the “classic” Lanham Act defense is not always the best one available. Another example is the nominative fair use doctrine created in the *New Kids on the Block* case and subsequently codified in the Lanham Act. In *New Kids*, two national print publications opened contests to allow people to vote for their favorite member of New Kids on the Block. In striking down a trademark infringement claim, the Ninth Circuit held there was fair use because the use of the group’s name was necessary to describe and conduct the contests. The doctrine has been expanded to include words that are necessary to be used in descriptions, even if they are registered marks. Thus, while a group like Komen might attempt to block smaller nonprofits from using “for the Cure” or “for a Cure,” there would be a valid nominative fair use defense. There is no source identification of the mark holder—Susan G. Komen for the Cure—when an event like “Kites for a Cure” takes place. Instead, the language is necessary to demonstrate that individuals will be flying kites for curing lung cancer. Once again, the analysis extends to CHERUBS’ use of “CDH Awareness.” The use only applies to CDH itself, and in no way points to Breath of Hope.

Finally, it is worth mentioning that there are other statutory exceptions in the Lanham Act that would greatly aid charitable

---

155 *Kravitz*, supra note 20, at 145–46.
158 *Id.* at 309–10.
nonprofits. Although some courts have found tarnishment in charitable trademark disputes, such a finding is inappropriate based on courts’ strict construction of the statute. Under the federal dilution statute recently added to the Lanham Act, it is required that any diluting act be a “commercial” use. Courts have found commercial use in soliciting donations, but according to case law charitable solicitation is non-commercial. There are elements of commerce present, but charity is too intertwined with the public interest to give the speech anything other than full First Amendment protection.

Thus, any dilution claims Komen could bring against smaller organizations for using “for the Cure” or the color pink would best be fought under the plain language of the statute itself. Because the speech is not commercial, the states’ interest in limiting speech to protect the mark holder is not strong enough to prevent others from potentially chipping away at the mark’s meaning. Furthermore, groups using similar marks are typically not going to tarnish the mark because they are working toward a similar goal. Thus, unless there is some bad faith in naming an event or organization, a court would likely not find dilution or tarnishment in a charitable nonprofit setting for use of the color pink or “for the Cure.” Dilution would not apply to Breath of Hope and “CDH Awareness” because the organization is too small for national dilution to be an issue. That said, larger organizations are in danger of having their mark diluted or tarnished if left unattended to in the commercial marketplace. That is not the only possible consequence though: if the mark becomes too ingrained in everyday speech it could be found generic.

**B. Genericness of Trademarks**

The greatest danger in allowing organizations to use colors like pink or phrases like “for the Cure” or “CDH Awareness” is that they could lose all trademark protection by becoming generic. The potential for genericide of trademarks has created a catch-22 for larger organizations like Komen. Although Komen is an international organization receiving millions of dollars each year, it also must actively assert and protect its trademarks. If it fails to challenge

---

161 See generally supra notes 36–43.
162 See generally id.
163 Although some state dilution statutes do not have the same commerce requirement.
others’ use of them, it runs the risk of the mark becoming generic.\(^{164}\) However, try as it might, a defendant may have a much stronger case for claiming “for the Cure” is generic because of the way Komen has phrased and attempted to use the mark. The same can be said about Breath of Hope’s “CDH Awareness” mark.

A generic term is not eligible for trademark protection.\(^ {165}\) Taking a generic word out of the marketplace leaves competitors out in the cold. Komen’s worry is that its trademark, “for the Cure” will become generic if it does not act to protect it. One of the first significant disputes where a court ruled a previously trademarked term generic was “aspirin.”\(^ {166}\) Bayer had never described its headache medicine as anything other than “aspirin,” and as a result the word lost all of its significance as a source identifier.\(^ {167}\) Aspirin was synonymous with headache medicine, not Bayer, and as a result the trademark protection was lifted.

A similar ruling doomed Kellogg and the term “shredded wheat.”\(^ {168}\) In that case, Kellogg only advertised with the words “shredded wheat.”\(^ {169}\) Although many people still identified shredded wheat with the manufacturer, Kellogg, the court found the term generic by creating a distinction between primary significance and subordinate meaning.\(^ {170}\) Even though some of the consuming public associated the mark with its source, the meaning of the words themselves still primarily identified themselves with the product.\(^ {171}\) Because Kellogg had only used the term “shredded wheat” to describe the type of food, as opposed to Lego toys, an Apple computer, or a Xerox copier, the term was no longer able to be trademarked.\(^ {172}\)

Unfortunately, this line of cases looks more at the dictionary meaning of the words than the words’ impact on the marketplace.\(^ {173}\) As a result, mark holders push hard to advocate for the dictionary definition of their marked words instead of how the trademark is used in the context of print advertising or charitable solicitations. Organizations like Komen could go after individuals who use the

---

\(^{164}\) This is especially a problem for Komen because many of its “for the Cure” marks are less than five years old. See 15 U.S.C. § 1065 (2010).


\(^{166}\) See Bayer Co. v. United Drug Co., 272 F. 505 (S.D.N.Y. 1921).

\(^{167}\) *Id.* at 510–11.


\(^{169}\) *Id.* at 113–14.

\(^{170}\) *Id.* at 118–20.

\(^{171}\) *Id.*

\(^{172}\) *Id.*

trademarked term in a way that would make it generic, just to protect its denotative meaning.174 However, the law as it currently stands may still protect smaller organizations using “for the Cure.” True, unlike Kellogg and Bayer, Komen does use the term “for the Cure” in conjunction with other words like “pitch,”175 “nurses,”176 and “crunch.”177 Furthermore, none of Komen’s marks disclaims the phrase “for the Cure.”178 However, defending “for the Cure” by itself is a much more difficult task because the meaning is more strongly linked to finding a cure for a disease than to the Susan G. Komen organization.

Yes, some people will link “for the Cure” with Komen, but the Kellogg case would still allow an examination of how others use the term.179 In a charitable nonprofit view, “for the Cure,” can be a reference to many different kinds of cures, and the attached meaning is entirely up to the person participating in the event or organization. Like the term “shredded wheat” in the Kellogg case, “for the Cure” is more of a description of what is being provided. Even though Komen is still fighting for the meaning of the word and filing new “for the Cure” trademarks, Komen may have already lost the war. The phrase could be found generic because of how ubiquitously it describes the goal of the organization.

Breath of Hope’s “CDH Awareness” mark would likely fail under a similar Kellogg analysis. By itself, the language only refers to the condition “Congenital Diaphragmatic Hernia” and awareness of the condition. The use of the phrase does not point to Breath of Hope any more than it does to CHERUBS, but instead directs the reader to a condition they are both attempting to raise awareness for. By only describing a goal of the organization, and especially in First Amendment balancing in charitable commercial speech, Breath of Hope’s trademark is generic. Allowing the mark to stand would do too much damage to any other organization looking to serve the public good by raising awareness of CDH. Unfortunately, saber rattling, cease-and-desist letters, and the threat of litigation by organizations like Breath of Hope and Komen prevent many organizations from helping the public good. Below are some suggestions to move the balance of power back towards smaller nonprofits with high aspirations but no budget to litigate trademarks.

174 See McGeveran, supra note 10, at 58.
175 PITCH FOR THE CURE, Registration No. 3,236,109.
176 NURSES FOR THE CURE, Registration No. 3,109,295.
177 CRUNCH FOR THE CURE, Registration No. 3,107,181.
178 See supra notes 56–57, 59, and 175–77.
IV. HOW TO EASE THE BURDENS OF NONPROFIT TRADEMARK LITIGATION

An outside observer may not see much of a problem with the current trademark system. Organizations can claim marks to protect their charitable interests, and smaller organizations have a series of defenses to work with if larger organizations attempt to go after them or overreach. However, while the law has recently begun to favor smaller organizations by giving greater weight to the First Amendment in trademark cases, there is still a large problem. Trademark cases are expensive. Many courts require proof of a number of multi-factor tests, especially likelihood of confusion. This generally requires substantial outside data and expert testimony. Of course, when one side hires an expert, the other side is at a disadvantage if it does not. Furthermore, a national organization can put a smaller organization on its heels by forum shopping for circuits with favorable law. The result is that even if a smaller organization wants to fight, it would be choosing to dump its donor money into legal fees instead of the cause it received donations for initially. On the other hand, the organization may do irreparable harm to itself by attempting to rebrand itself in order to avoid trademark litigation.

There is no easy fix to this kind of expense and disparity, and it is unrealistic to expect that smaller organizations will have the legal prowess of larger organizations. However, below are a few suggestions that would help smaller organizations by increasing legal predictability. As a result, smaller organizations would able to react to cease-and-desist letters from larger organizations.

First, the KP Permanent Make-Up standard needs to be applied in all Circuits. The Supreme Court did a great deal to help smaller organizations because they no longer have a burden to disprove likelihood of confusion before moving on to fair use. The Ninth Circuit’s dismantling of the case on remand by paying lip service to the Supreme Court is inadequate because the Circuit merely reestablished its old likelihood of confusion before fair use rule.

---

180 See McGeveran, supra note 10, at 59–60.
181 Id. at 113–14.
182 Id. at 70.
184 See supra notes 144–147.
185 See McGeveran, supra note 10, at 114.
Instead, the Fourth Circuit has the right idea: allow the fair use defense to be brought up when it applies—when there is a potential for likelihood of confusion.\textsuperscript{186} If there was none, then there would be no need for a fair use defense. If the KP Permanent Make-Up standard is enforced, there will be less need to spend extra money on outside research, experts, and expensive fact-based inquiries. As a result, small nonprofits like CHERUBS might be able to establish fair use and win in a summary hearing instead of being bogged down in court.

Second, the likelihood of confusion factors are different both in wording and implementation across the country.\textsuperscript{187} Some Circuits weigh some factors more than others, while other Circuits leave out factors entirely. The correct solution, for the legislature, not the judiciary, is to write a likelihood of confusion multifactor test into the Lanham Act to create national uniformity in application. The legislature has already done this by adding a blurring test to section 1125, so there is precedent supporting the creation of statutory factors.\textsuperscript{188} That way, courts would be applying the same factors, no matter the Circuit. Ideally, the legislature would also either give some factors more weight, or allow weight to be given based on the circumstances. This would also allow for more summary adjudications and increase efficiency because courts would not be busy trying to justify their own tests to accommodate problematic fact situations.

Third, the way courts adjudicate genericism needs to change so that larger organizations are not constantly trying to fight smaller organizations or individuals over the use of the marks. As of now, the law allows for an examination of the meaning of the words without examining the context of how they are used in the market.\textsuperscript{189} This leaves larger organizations like Komen at a disadvantage because, through national marketing, they could be contributing to degrading their own marks as generic. Instead, courts should look at how the term is used in a market context. True, charitable nonprofit solicitation is not commercial speech, but different organizations are still working within the same marketplace to solicit donations from a limited pool of potential donors. In that sense, the need to avoid consumer confusion for marks that identify their source is strong.

\textsuperscript{186} See Shakespeare Co. v. Silstar Corp. of Am., Inc., 110 F.3d 234, 243 (4th Cir. 1997) (“[I]t defies logic to argue that a defense may not be asserted in the only situation where it even becomes relevant.”).
\textsuperscript{187} See, e.g., supra note 72.
\textsuperscript{189} See Deven R. Desai & Sandra L. Rierson, Confronting the Genericism Conundrum, 28 CARDOZO L. REV. 1789, 1791 (2007).
One very useful proposal by Deven R. Desai and Sandra L. Rierson is to have courts use a two-step process for determining whether a mark is generic. 190 First, the court must determine whether the mark is source-identifying. This is similar to the requirement used for descriptive marks. 191 Then, if the mark is source-identifying, the court must examine whether removing the mark would be too damaging to potential competition. In the case of nonprofits, this means determining if denying the mark to other users hinders them from soliciting funds. If so, then the mark is generic even if it is source-identifying. 192 By this standard, Breath of Hope’s mark on “CDH Awareness” would be generic because it does not refer solely to Breath of Hope and removing it would severely hinder CHERUBS and other organizations from raising CDH awareness.

This streamlined test protects both the mark holder and the potential defendant by allowing the court to examine how the mark is used in the marketplace. Instead of wrangling over what the words mean and what is of “primary significance,” both sides can focus on how they already use the words in question. 193 The use should be narrow in scope and focus on the type of charitable organization, not whether the organization is a charity. An international organization like Komen should not be able to block any charity from raising funds for curing a disease with its “for the Cure” trademark. Hopefully, this narrow focus would reduce the amount of cease-and-desist notices sent to organizations that are not in the same market.

Finally, in order to deter mark holders from frivolously or maliciously attacking innocent charitable nonprofits, the court should be broader in its implementation of section 1117 of the Lanham Act. The Act currently provides for attorneys fees to be awarded to the defendant in the case of extraordinary circumstances, and as equity requires. 194 As shown above, charities using donor dollars to go after other charities is a drain on money that could be better serving the public good. By allowing a broader recovery mechanism in charitable nonprofit cases, courts would deter organizations from starting fights that could cost them in the long run. If the question is close, then there may be a legitimate dispute. However, a defendant, who has just as much of a right to attorneys’ fees as a plaintiff, should not have to carry the cost when a frivolous suit is brought against it. Of course, the largest organizations, like Komen, may be able to absorb the cost,

190 Id. at 1846–51.
191 Id. at 1846–48.
192 Id. at 1850–51.
but siphoning more funds from donor dollars to absorb added litigation costs would be very bad press. Meanwhile, the risk of being hit with attorneys’ fees would deter many smaller organizations like Breath of Hope from filing illegitimate, deficient trademark claims. Because the First Amendment’s protection on expression has more weight in charitable nonprofit trademarks, the best method for protecting expression might be to have parties not go to court at all.

V. CONCLUSION

In an ideal world, charitable organizations would look over their shoulder and be happy that other organizations are working towards similar goals and helping the same cause. Unfortunately, charitable nonprofit work can also be a big business with a lot at stake, not just for recipients of services, but for service providers themselves. Like other commercial organizations, they spend money promoting their causes and soliciting donations. However, these donations are only meant to support the growth of the nonprofit and help the public interest.

Thus, trademark disputes for charitable entities have higher stakes because the groups survive only by the generosity of those who believe their donations will be used for charitable work. While a small charitable nonprofit may have a legitimate defense against a trademark claim, the inefficiency of trademark litigation greatly hinders either what organizations can do to stave off trademark claims or devote resources to helping others.

Unfortunately, smaller nonprofits like CHERUBS are left in dire straits whether they are faced with a deficient trademark infringement action by Breath of Hope or if they receive a cease-and-desist from a mega-nonprofit like Komen. In order to survive, small nonprofits must either fight a battle they cannot afford to fight or cave to the zealous claimant. Although one goal of trademark law is to protect ideas in the commercial marketplace, the tension created by trademark suits against charitable nonprofits is unjustified. Any commercial trademark protection must be balanced against a nonprofit’s charitable goals and First Amendment rights. This balance must be weighed in the favor of the smaller nonprofit’s use, at least at the start of litigation, because charitable speech is not commercial speech. It receives full First Amendment protection.

In the end, smaller nonprofits like CHERUBS are a vital part grassroots community outreach, and the law must save them from being crushed by the expense of fighting meritless cease-and-desist letters and faulty trademark claims. CHERUBS helps families facing CDH and works to raise public awareness of the condition. The public
interest is best served by allowing CHERUBS to use the phrase “CDH Awareness” despite Breath of Hope’s trademark in the same way Komen should not be allowed to block other organizations from using phrases like “for a Cure” or “for the Cure.” Courts need to recognize that charitable expression is entitled to greater protection than commercial speech and Congress needs to reshape trademark law to keep smaller nonprofits from being at such a distinct disadvantage to larger organizations. Although nonprofits like CHERUBS and Komen may never be on equal financial footing, hopefully one day both sides of trademark disputes will have a more equal footing in court.
INTRODUCTION

The Internet opened up to commercial use in 1991.¹ In the Internet’s infancy, it was the exceptional company that advertised or posted information about itself on a website, and consumers were just beginning to understand and incorporate companies’ websites into the way they gathered information about products and services.² Contrast that with consumers’ dependence on the Internet today. Now, it seems like it is the exceptional company that does not have a website to instruct and to guide potential customers. There will almost certainly be brick-and-mortar businesses, as well as traditional economic advertising and transactions, but e-commerce has captured a rising

¹ J.D. Candidate, May, 2011, Wake Forest University School of Law, Managing Editor, Wake Forest Law Review.

The authors would like to thank Professor Simone Rose for her insight and wisdom in developing this topic, the Wake Forest Journal of Business and Intellectual Property Law Editors’ tireless work on Volume 11, and the authors’ families for their endless support.

¹ History of Ecommerce, ECOMMERCE-LAND, http://www.ecommerce-land.com/history_ecommerce.html (last visited Nov. 28, 2010). However, the first Internet service providers enabled the public to access the Internet as early as 1989. Who Was the First Internet Service Provider, INTERNET BUSINESS (Aug. 8, 2009, 12:50 PM), http://www.theinternetbusinessman.com/who-was-the-first-Internet-service-provider.
² See History of Ecommerce, supra note 1.
percentage of overall sales. 3 How often do consumers purchase items from e-companies like Amazon.com, receive online services from places like eHarmony.com, or conduct banking with online-only firms like Ally? 4 But the Internet is not just for huge companies like Facebook.com or Amazon.com that have legal departments and understand the benefit (if not necessity) of registering a trademark with the United States Patent and Trademark Office (the “USPTO”). Small business, too, can profit from an online presence. As William E. Kennard, former Chairman of the Federal Communications Commission, stated, “The Internet has been called the great equalizer, because it can reduce economic isolation, and equalize economic opportunity.” 5

Small or startup businesses have every incentive to put their products or services online. The absence of an online presence may frustrate potential consumers who increasingly rely on websites or online reviews to decide if they would like to do business with a company. 6 An absence from the Internet hints to the potential consumer that the business might be mismanaged, unprofessional, or inexperienced given the current ubiquity of commercial websites. Therefore, while there are some stalwart, anti-online holdouts, most businesses wishing to convey a stable and quality product have an online presence that, at the least, gives potential customers information about the business’s goods and services. Furthermore, these businesses, in an effort to teach potential customers to recognize their goods or services, will almost invariably and prominently display their mark to put a name or design in customers’ minds that identifies the goods or services offered. While every business presumably understands the necessity of having a “brand,” some owners will begin using their mark on the Internet without registering it with the USPTO because they are ignorant of the ramifications of failing to register or

---

because they lack the desire or resources to go through the application process.

Consider small software development startups, using the hypothetical software development company Projob Technologies, LLC ("Projob") as an example. Projob specializes in Internet-only software services for young professionals looking for employment. It does not ship goods, does not limit advertising to a specific geography, and has not registered its trademark with the USPTO. For those entrepreneurs that own small Internet companies like Projob, intellectual property rights are not likely foremost in their minds. Indeed, many web developers and tech startups are likely unfamiliar with trademark law, especially as it applies to the Internet. However, they are not alone. Courts and scholars have wrestled with questions pertaining to Internet applications of trademark laws since the Internet was commercialized. Thus, one pressing question remains: does the Lanham Act, through its various Internet-related updates, accommodate a situation where a common law senior user has exploited the Internet to use his mark in commerce, and if so, have courts been able to craft a remedy when a junior good-faith user registers a substantially similar mark with the USPTO? Are the Lanham Act and the traditional foundations of trademark law still relevant since the great Internet migration began over twenty years ago?

This Comment argues that current trademark law in the United States is, at the least, inadequate and, at the most, inapposite to effectively and uniformly establish the divisions in possession of trademark rights between an Internet common law senior user and an Internet junior user that has registered the mark on the principal register. Part I discusses the Concurrent Use Doctrine as it existed both before and after the enactment of the Lanham Act in 1946 in order to set the legal context for concurrent Internet use problems. Part II explores the problems unique to concurrent trademark use on the Internet. Part III considers the scholarly works that have attempted to confront these issues with concurrent Internet trademark use. Finally, Part IV argues that the old geographic- and consumer-oriented trademark rationales cannot be imported to the Internet context because of online mark holders’ world-wide and instantaneous reach. Part IV goes on to suggest that this systemic problem can likely be remedied by enacting one or more reforms to address the reality of trademarks in the twenty-first century. This Comment concludes by applying our suggested remedies to companies like Projob.
I. CONCURRENT USE AND THE TEA ROSE DOCTRINE

Serving as a check on the rights of mark holders, the concurrent use doctrine has developed into a set of rules that define the boundaries of a mark’s reach and protect the rights actually earned by the mark holder, at least in a brick-and-mortar application. This Part will explain the evolution of the concurrent use doctrine. Subpart A begins by discussing the concurrent use doctrine’s development in the common law since 1917. Subpart B describes the impact of the Lanham Act on regional boundary setting and the good faith junior-user exception. Finally, Subpart C concludes by explaining the narrower zone of goodwill test that the courts currently use to determine the scope of a mark holder’s rights.

A. Common Law

The modern concurrent use debate began with the Tea Rose doctrine as created in Hanover Star Milling Co. v. Metcalf. Unlike the earlier bright-line “first-to-use” common law rule, the Tea Rose doctrine emphasizes regionality, market penetration, and actual use to delimit rights in the use and protection of a mark. The doctrine balances equities and attempts to provide protection for a mark, but only insofar as the mark holder has “earned” that protection through use. This resistance to drawing a bright-line rule has been fundamental in establishing the nature of a trademark right as one not of property in gross, but as a right appurtenant to actual use.

In Hanover, the junior user, Hanover, provided affidavits affirming that it had appropriated and used the mark Tea Rose in connection with its flour sales from 1885 and had conducted “a vigorous and expensive campaign of advertising its Tea Rose flour, covering the whole of the state of Alabama, and parts of Mississippi, Georgia, and Florida.” Additionally, the court emphasized that “the Hanover Star Milling Company has come to be known as the Tea Rose mill . . . and ‘Tea Rose’ in the flour trade in the territory referred to means flour of the Hanover company’s manufacture.”

---

7 240 U.S. 403 (1916).
8 See id. at 413–16.
9 Id. at 416.
10 See, e.g., id. at 414 (“In short, the trademark is treated as merely a protection for the goodwill, and not the subject of property except in connection with an existing business.”).
11 Id. at 410.
12 Id. (emphasis added).
Conversely, the senior user, Allen & Wheeler ("A&W"), which acquired the mark by transfer from a parent corporation in 1904, demonstrated that the Tea Rose mark had been used in connection with its own sales of flour since its appropriation in 1872.\textsuperscript{13} Contrary to Hanover’s prolific sales and advertising, A&W could only show de minimis sales in remote areas such as Cincinnati, Pittsburgh, and Boston.\textsuperscript{14} The court was outwardly suspicious of the evidence submitted by A&W: “[T]here is a remarkable absence of particular statements as to time, place, or circumstances; in short, no showing whatever as to the extent of the use or the markets reached.”\textsuperscript{15} Finally, the court noted that “there is nothing to show that the . . . flour has been even advertised in Alabama or the adjoining States, and there is clear and undisputed proof that it has not been sold or offered for sale or known or heard of by the trade in Alabama, Mississippi, or Georgia.”\textsuperscript{16}

The Hanover court thus limited the classic “first to use” rule of trademark law. Emphasizing the classic principle that trademark rights flow from actual use, the court reiterated that mere appropriation is insufficient for protection of a mark in commerce.\textsuperscript{17} Specifically, “[I]nto whatever mark ets the use of a trademark has extended, or its meaning has become known, there will the manufacturer or trader whose trade is pirated by an infringing use be entitled to protection and redress.”\textsuperscript{18} In denying A&W’s attempted long-arm assertion of its limited regional use, the court stated,

[I]t is the trade, and not the mark, that is to be protected, a trademark . . . [which] extends to every market where the trader’s goods have become known . . . . But the mark, of itself, cannot travel to markets where there is no article to wear the badge and no trader to offer the article.\textsuperscript{19}

Therefore, Hanover was protected as a good faith junior user in its remote market from the claims of infringement by the senior user, A&W. This equitable remedy and judicial analysis would come to define the court’s jurisprudence with regard to common law concurrent use and would be extended in subsequent decisions.

\textsuperscript{13} Id. at 409.
\textsuperscript{14} Id.
\textsuperscript{15} Id.
\textsuperscript{16} Id.
\textsuperscript{17} Id. at 415.
\textsuperscript{18} Id. at 415–16.
\textsuperscript{19} Id. at 416.
True to the court’s signal in *Hanover*, the first expansion of the doctrine was elucidated in *United Drug Co. v. Theodore Rectanus*. In *Rectanus*, the petitioner Regis created a tablet for dyspepsia and began to sell it with the associated “Rex” mark around 1877. Regis registered the mark under the state laws of Massachusetts and used it extensively in and around Massachusetts. Around 1911, Regis bought a competing company, Rex-All, and began selling its dyspepsia tablets in Rex-All stores all over the country, including in Louisville, Kentucky. Meanwhile, the respondent Rectanus created a blood purifier around 1883 and, innocently and in good faith, also branded it “Rex.” Rectanus created a market and sold the purifier in and around Louisville, Kentucky from 1883 to the time of suit, thereby rendering him a good faith junior-user. When Rectanus delivered his tablets to the Rex-All in Louisville, Regis sued, asserting its rights in the exclusive use of the “Rex” mark in association with drugs in and around Kentucky.

The *Rectanus* Court reaffirmed that trademark rights are not held as property per se and denied the petitioner’s claim, stating that the claim was “based upon the fundamental error that a trade-mark right is a right in gross or at large, like a statutory copyright or a patent for an invention, to either of which, in truth, it has no analogy.” The Court held that use of a trademark in one location, and even registration in that state, does not extend rights into any other location, regardless of intent to enter the market; one state’s laws do not have an extraterritorial effect. The court held that Regis, “being the newcomer in that market, must take subject to whatever rights had previously been acquired in good faith by the Rectanus Company and its predecessor. To establish otherwise . . . would be to establish a

---

20 “We are not dealing with a case where the junior appropriation of a trademark is occupying territory that would probably be reached by the prior user in the natural expansion of his trade, and need pass no judgment upon such a case.” *Id.* at 420. However, one paragraph later the court acknowledged the posture of *Rectanus* and compared it to the instant case: “The [*Hanover*] case is peculiar in its facts; and we have found none precisely like it. The recent case of *Theodore Rectanus Co. v. United Drug Co.* (C. C. A. 6th C.) 226 Fed. 545, 549, 553, is closely analogous.” *Id.*
21 248 U.S. 90 (1918).
22 *Id.* at 94.
23 *Id.*
24 *Id.*
25 *Id.*
26 *Id.*
27 *Id.*
28 *Id.* at 97.
29 See *id.*
right in gross, and to extend it to territory wholly remote from the furthest reach of the trade to which it was annexed.”

Following Rectanus, a senior user assumed the risk that a junior user could appropriate an identical or confusingly similar mark in a remote area and profit from the mark, because the senior user could only assert its rights in its specific areas of market penetration. This rule exemplified the court’s focus on the equitable rights of those who build goodwill in a company, and protected them by distinguishing the nature of a trademark right as one that is geographically limited. Currently, if a mark user brings a common law action under § 43, this rule is still followed. However, following Rectanus, the Lanham Act, specifically federal registration of trademarks under § 32, limit the reach of the concurrent use doctrine.

B. The Lanham Act and the Narrowing of the Exception

Currently, the Tea Rose defense is available for good faith junior users; however, the Lanham Act has complicated its application in most situations. The Lanham Act provides that registration on the principal register constitutes prima facie evidence of ownership of a mark and also creates an exclusive nationwide right to use a mark in commerce. Additionally, with the filing of an affidavit five years after registration, a mark becomes incontestable, rendering it immune to any attacks on its distinctiveness. Therefore, the Lanham Act provides a larger scope of rights to a registered holder, including an increased area of protection, than did the previous common law rules.

Codified in 15 U.S.C. § 1115(b)(5), the good faith junior user exception was applied by the First Circuit in Thrifty Rent-a-Car System, Inc. v. Thrift Cars, Inc. Section 1115(b)(5) creates a “‘limited area’ exception to the general premise of incontestability.” This provision allows a good faith junior user to use the mark only in the area in which it can show actual use prior to the federal registration of the senior mark. Therefore, the junior user’s geographic reach is frozen when the senior user registers the mark

30 Id. at 101.
32 See id. §§ 1114, 1115(b)(5).
33 See id.
34 See id. § 1115(a).
35 See id. §§ 1065, 1115(b).
36 831 F.2d 1177 (1st Cir. 1987).
37 Id. at 1180.
38 Id.
with the USPTO. Federal trademark registration constitutes notice of appropriation and ownership, and the onus is thus transferred to the junior user to check the federal register prior to adoption of a mark.40

In Thrifty, the plaintiff, Thrifty Rent-a-Car, was a nationally recognized car rental company that entered the market around 1958 and became one of the leading companies in the field.41 The plaintiff had also registered its mark with the USPTO.42 The defendant, Thrift, was a much smaller company that operated almost exclusively in the Cape Cod area of Massachusetts and had been using the mark before and after the plaintiff’s mark’s registration.43 The court determined that Thrift’s use of its mark occurred after Thrifty Rent-a-Car’s common law use began but prior to the federal registration of Thrifty Rent-a-Car’s mark,44 and, therefore, the defendant qualified under § 1115(b)(5) as a good faith junior-user.45

The remedy the court administered, however, was notable for how it treated the good faith junior user.46 First, the court engaged in a rigorous geographical assessment of the actual use of both parties. This analysis required not only a defined boundary, but also a defined area of penetration; the court limited Thrift’s use of its mark to only the area in which Thrift had operated continuously before Thrifty registered the mark: the East Taunton area.47 The court banned advertising or expansion beyond this geographically distinct area.48 Comparably, Thrifty was enjoined from entering or marketing in Thrift’s geographically delimited market.49 This remedy defends the nationwide rights given to a federal registrant, while also protecting a good faith junior user’s right to use the mark in a conservatively defined geographical area. Even though the Lanham Act provides nationwide rights, they do not extend into a geographic area appropriated by a junior user’s prior use.50 This decision is consistent

41 Thrifty, 831 F.2d at 1179.
42 Id.
43 Id.
44 Id. at 1181.
45 Id.
46 Id. at 1183.
47 Id.
48 Id.
49 Id.
50 See id.
with the traditional trademark law policy that trademark ownership is not in gross.\textsuperscript{51}

A senior user’s rights against a good faith junior user are further qualified under \textit{Dawn Donut Co. v. Hart’s Food Stores, Inc.}\textsuperscript{52} Even when a good faith junior user appropriates a confusingly similar mark after the federal registration of the senior user’s mark, the court may still deny an injunction for the senior user.\textsuperscript{53} The court in \textit{Dawn Donut} reasoned that a lack of actual market penetration and a lack of intent to enter the market prevented the senior user from protecting its mark in the remote territory in which the junior user had used the mark.\textsuperscript{54} The court focused on the rooted purpose of trademark law: “[T]he registrant may enjoin only that concurrent use which creates a likelihood of public confusion as to the origin of the products in connection with which the marks are used.”\textsuperscript{55} However, the protection for a good faith junior user is slight. Should the senior user so intend and subsequently enter the junior user’s market, the senior user may obtain an injunction.\textsuperscript{56}

Following \textit{Dawn Donut}, a senior user gains a presumption of nationwide priority by registration only insofar as it actually penetrates a market. Trademark ownership and protection is based on use and only extends as far as the geographic scope into which the use has penetrated. This presents particularly acute problems for Internet-based companies, where geographic scope is limitless and boundaries are ethereal. In many situations, an Internet company’s actual market penetration and zone of expansion either cannot be determined or can only be determined through seemingly arbitrary analyses. With its emphasis on traditional geographic delimitation, the concurrent use doctrine creates a unique set of problems for Internet companies.

\textbf{C. Zone of Goodwill}

To better understand the unique set of problems caused by the Internet in the concurrent use scenario, it is necessary to provide a brief history of traditional regional geographical delimiting.

\begin{itemize}
\item \textsuperscript{51} United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918).
\item \textsuperscript{52} 267 F.2d 358 (2d Cir. 1959).
\item \textsuperscript{53} Id. at 369.
\item \textsuperscript{54} Id. at 365.
\item \textsuperscript{55} Id. at 364.
\item \textsuperscript{56} Id. at 365; see also Emergency One, Inc. v. Am. Fire Eagle Engine Co., 332 F.3d 264, 269 n.3 (4th Cir. 2003) (“The owner of a registered mark ‘has a nationwide right, but the injunctive remedy does not ripen until the registrant shows a likelihood of entry into the disputed territory . . . .’” (quoting Lone Star Steakhouse & Saloon, Inc. v. Alpha of Va., Inc., 43 F.3d 922, 932 (4th Cir. 1995) (internal quotes omitted))).
\end{itemize}
Traditionally, a seller would market and sell to his customers through a stand-alone brick-and-mortar store. Using this location as an epicenter, a court could determine the extent of the business’s “effect,” known as the business’s zone of goodwill.\textsuperscript{57} The overall zone of goodwill consists of two components: the zone of market penetration, or the area in which the goods have actually been purchased, and the zone of reputation, consisting of the area in which the brand is recognized, but in which the business’s goods have not been sold.\textsuperscript{58} When determining the overall extent of a business’s zone of goodwill, courts consider these two parts together, with strength in one aspect being sufficient to compensate for the shortfall of the other.

Courts have historically had little trouble determining the zone of market penetration, with older cases holding that there must be merely some use greater than de minimis use in an area to preempt appropriation by a junior user.\textsuperscript{59} A statutory amendment raised the bar of what constitutes “use in commerce” from de minimis use to bona fide use (read: actual sales).\textsuperscript{60} Thus, mere use simply to maintain a trademark or artificially expand a zone of goodwill (through de minimis or trivial use in remote areas) is no longer sufficient.\textsuperscript{61} Now, the relevant market consists of those areas in which a buyer has purchased the seller’s goods.\textsuperscript{62} The general test for showing a minimum amount of sales consists of the following factors: (1) volume of sales of the product in the area; (2) growth trends; (3) ratio of persons buying from the potential group of consumers; and (4) amount of advertising.\textsuperscript{63}

Further, a seller may establish a zone of goodwill, either in conjunction with the market penetration test or independent of it, by a

\textsuperscript{57} See W. Scott Creasman, Establishing Geographic Rights in Trademarks Based on Internet Use, 95 TRADEMARK REP. 1016, 1017 (2005).
\textsuperscript{58} Id.
\textsuperscript{59} MCCARTHY, supra note 31, at § 26:13.
\textsuperscript{60} 15 U.S.C. § 1127 (“The term ‘use in commerce’ means the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark. For purposes of this chapter, a mark shall be deemed to be in use in commerce”); MCCARTHY, supra note 31, at § 26:13.
\textsuperscript{61} See MCCARTHY, supra note 31, at § 26:13; see also Procter & Gamble Co. v. Johnson & Johnson, Inc., 485 F. Supp. 1185, 1204 (S.D.N.Y. 1979), aff’d, 636 F.2d 1203 (2d Cir. 1980) (“[U]sage which is sporadic, nominal, and intended solely for trademark maintenance is insufficient to establish and maintain trademark rights . . . .”).
\textsuperscript{62} Creasman, supra note 57, at 1017–18.
\textsuperscript{63} Natural Footwear Ltd. v. Hart, Schnaffer & Marx, 760 F.2d 1383, 1398–99 (3d Cir. 1985) (following Sweetarts v. Sunline, Inc., 380 F.2d 923 (8th Cir. 1967), remanded to 299 F. Supp. 572 (E.D. Mo. 1969), aff’d in part, rev’d in part, 436 F.2d 705 (8th Cir. 1971)).
showing of a zone of reputation. Though the Tea Rose doctrine precludes a mark from moving beyond the area of actual use, the reputation of a mark may also prevent a junior user from bringing the innocent good faith junior user defense. Good faith is a requirement for assertion of the defense; therefore, if the junior user is aware, or if a sufficient number of customers in the area are aware of the seller, reputation may serve to effectively close off a market for the junior user.

This zone-based test is the culmination of common law development regarding delimitation of trademark rights in a concurrent context. And, when examining the scope and rights attached to a mark, mark holders can now predict with some accuracy whether their use or reputation will be sufficient to create rights in a specific location. At the least, they will be able to anticipate the tests that will be used and how they will be applied. However, while these tests seem to account for the problems of consumer confusion that arise when two mark users conflict in a brick-and-mortar world, this zone-based process has had a more limited utility in the virtual context. The following Part will discuss the current judicial treatment of, and problems with, these issues in a virtual setting.

II. CURRENT JUDICIAL TREATMENT OF COMMON LAW INTERNET ISSUES

While courts have had no trouble applying the good faith junior user exception to a specified geographic location, today’s courts have yet to establish definitively what constitute the physical boundaries—if any—of Internet mark use. If we continue looking at Projob and its Internet-only mark use, we quickly see how trademark law, developed with a brick-and-mortar business’s mark in mind, does not address many questions about how to establish geographic limitations for common law mark users who advertise and only offer online services. The case law on these questions is in its infancy, and there is no consensus or established rule regarding what scope of rights Internet-only use provides a business. This Part considers

64 McCarthy, supra note 31, § 26:16.
65 See id.
66 See id. §§ 26:16–17.
67 See, e.g., Gucci Am., Inc. v. Hall & Assoc., 135 F. Supp. 2d 409, 421–22 (S.D.N.Y. 2001) (“Unlike a ‘brick and mortar outlet’ with a specific geographic locale, and unlike the voluntary physical mailing from one geographic location to another . . . the . . . Web is not geographically constrained . . . . Web publishers are without any means to limit access to their sites based on the geographic location of particular Internet users.”) (quoting ACLU v. Reno, 217 F.3d 162, 175 (3d Cir. 2000)).
recent cases that have confronted issues similar to our example and how courts have addressed (or avoided) the implications of Internet marks being everywhere and nowhere at once. Subpart A discusses businesses that use the Internet in furtherance of selling physical goods or services (the “Real world Use”). Subpart B then expounds on online-only businesses that use the Internet to provide web-based services and products (the “Virtual world Use”). The “world” a business falls into matters considerably in determining the geographic scope of common law protection under the Lanham Act.

A. Optimal Pets, Inc. v. Nutri-Vet, LLC—Applying the Traditional Brick-and-Mortar Geographic Limitations on Trademark Internet Use

Businesses can conceivably use the Internet in one of two ways: to facilitate traditional, real world sales of products and services or as the sole venue/conduit used to provide virtual products or services. In the Optimal Pets case, the court dealt with the former type of trademark use on the Internet. The defendant, Nutri-Vet, registered and began using the mark “Optimal Pets” in 2008 and had generated sales of over $260,000. However, the plaintiff, claiming it had common law rights to the mark, began using the mark in 2004 and had made $35,000 in sales over four years. While the plaintiff was the senior common law user, the defendant’s registration gave it the presumption of nationwide constructive use under the Lanham Act. Therefore, the plaintiff had the burden of showing that it had successfully penetrated the junior user’s markets and had the right to preclude the defendant from competing in those areas.

The court blatantly acknowledged the lack of precedent and guidance available to determine the effects of Internet use in establishing market penetration. Despite mentioning the problem, the court, nonetheless, relied on the traditional market penetration

69 Companies like Amazon.com fit into the first, real world use category, and businesses like eHarmony.com fit into the latter virtual world use category.
70 Optimal Pets, 2010 WL 2305843, at *1.
71 Id.
72 Id. at *2.
73 See id.
74 Id. at *2 n.4 (“The Court notes, but need not now address, that various issues may be presented in the instant case by virtue of the significance of marketing through the Internet. For example, how is a sale through an Internet website considered in the context of establishing market penetration in a geographical area?”).
factors found in *Natural Footwear* to dismiss the defendant’s motion for summary judgment: “the volume of sales,” “the growth trends,” “the number of people who purchased the party’s goods in relation to the number of potential customers,” and “the amount of advertising.” Consistent with its statement that it was unsure of the effect of Internet presence, the court avoided the impact of the plaintiff’s presence on the Internet and commented that the plaintiff would likely be able to show market penetration in some geographic locations, but it was “unlikely [that the plaintiff would] be able to establish its claim to a common law trademark with nationwide scope.” Instead, the court focused on the location of consumers who had purchased goods from the plaintiff’s brick-and-mortar store, noting that the plaintiff had sold to thirty-four states and maintained regular sales in fourteen stores, mostly in Arizona and Colorado.

While the *Optimal Pets* case required the court only to determine if a reasonable jury could find that the plaintiff had some market penetration, the case still illuminates the contemporary problem with establishing what effect the Internet has on establishing geographic market penetration. Courts appear apt to apply the tests and rules developed for brick-and-mortar businesses when handling Internet use cases that correspond to Realworld Use, despite the glaring and unresolved question of what the geographic scope of Internet use is. However, the solution is not so clear when everything happens online.

**B. Pure Imagination, Inc. v. Pure Imagination Studios, Inc.**

The *Pure Imagination* case is fairly on point with the Projob example explained in the Introduction to this Comment. The plaintiff

---

75 Id. at *2 (citing Adray v. Adry-Mart, Inc., 76 F.3d 984, 989 (9th Cir. 1995)).
76 Id.
77 Id. at *3.
78 See also Lucent Info. Mgmt. v. Lucent Techs., 186 F.3d 311, 325 (3d Cir. 1999) (J., Ackerman, dissenting) (“In this global economy where goods are often sold over a wide area rather than in a neighborhood store, the majority’s rule of use penalizes small companies which take advantage of the national market. It is ironic that the majority sets forth such a high standard of use in this day and age when there is a technological revolution underway in which the Internet permits small trademark users to sell their goods and services to broad geographic areas. The majority’s standard of use places a legal straitjacket on those companies and deprives them of all common law trademark rights. In the end, this will exclude a whole class of trademark users from obtaining rights through ‘use’ rather than registration and will tilt the level playing field which has always been an indispensable ingredient in deciding trademark rights.”)
and senior user, Pure Imagination, Inc., operating out of Batavia, Illinois, provided Internet-only graphic design and advertising solutions.\textsuperscript{80} The plaintiff attracted clients through online keyword advertising that targeted both Chicago and the world through hundreds of “doorway” websites “designed to achieve a priority spot on search engine result lists.”\textsuperscript{81} The plaintiff’s business model revolved around little, if any, face-to-face contact with clients, and all services and substantially all communications were conducted online.\textsuperscript{82} As the court summarized, “Pure Imagination’s business . . . [did] not have specific geographic boundaries . . . [and the] only limitation [was] that the potential customer [had to] first locate Pure Imagination’s website.”\textsuperscript{83} Similarly, the defendant and junior user, Pure Imaginations Studios, also “relie[d] heavily on the Internet” and limited its advertising to the Internet.\textsuperscript{84} Also like the plaintiff, the defendant’s client base was not limited to any particular geographic region because its services were solely provided through the Internet.\textsuperscript{85}

\textit{Pure Imagination}’s parties fit into the classic junior good-faith user exception to federal registration under the Lanham Act\textsuperscript{86} because the plaintiff began using the mark in 1999, the defendant began using its mark in 2001, and the plaintiff registered its mark on the Principal Register in 2002.\textsuperscript{87} By registering its mark, the plaintiff established constructive nationwide use of its mark;\textsuperscript{88} the remaining issue was the geographic extent of protection a good-faith common law junior user retains when the junior user’s use in commerce cannot be geographically limited. Perhaps fortunately, the court was able to avoid setting these geographic limits; but, as it admitted in dicta: “[W]hile the Court recognizes that the operation of an active web site on the Internet could constitute nationwide trademark use, the record is not clear either as to which party first used the “pure imagination” mark on the Internet.”\textsuperscript{89}

These statements suggest that the defendant might have been able to establish nationwide common law rights to the mark, but the court

\begin{itemize}
\item \textsuperscript{80} Id. at *1.
\item \textsuperscript{81} Id. at *2.
\item \textsuperscript{82} Id.
\item \textsuperscript{83} Id.
\item \textsuperscript{84} Id. at *3.
\item \textsuperscript{85} Id.
\item \textsuperscript{86} See 15 U.S.C. § 1115(b)(5) (2006) (creating a limited geographic region for a good-faith junior user who had actual use of a mark before the senior user registered its mark with the USPTO).
\item \textsuperscript{87} Pure Imagination, 2004 WL 2967446, at *1–2.
\item \textsuperscript{88} Id. at *5.
\item \textsuperscript{89} Id. at *11 (emphasis added).
\end{itemize}
seemed reluctant to commit to a concrete answer. The court conveniently pointed to the lack of evidence showing which party was the first to begin using the mark on the Internet and merely held that the junior user was unable to meet its burden of showing a market and more than de minimis use.\textsuperscript{90} While not a definitive statement on the geographic reach of common law trademark use, this case demonstrates, at the least, that there is currently no firm answer for what to do when a common law user uses its mark solely on the Internet—no one is rushing to define where the Internet lives and where it does not. Unfortunately for the defendant, it did not record the start date of its Internet use, thereby allowing the court to sidestep this tricky issue.\textsuperscript{91} However, the implications of a nationwide common law right to a mark due to Internet-only use could be the exception that eats the rule—if a mark user can effectively get nationwide protection through Internet use, what purpose would registering with the USPTO serve? This judicial hesitancy suggests that any usable delimitation of the geographic scope of the Internet could have profound ramifications and might, as the authors believe, necessitate fundamental reform of trademark law, at least as it concerns the Internet.\textsuperscript{92}

\textbf{C. What About Projob?}

Given the unsettled nature of Internet common law use and the seemingly timid treatment courts are giving Internet common law

\textsuperscript{90} \textit{See id.} at *11 n.7 (discussing how the record was unclear as to who established first use on the Internet but suggesting that using the Internet to render services “could conceivably constitute nationwide use,” using the personal jurisdiction tests for the Internet as an analogue).

\textsuperscript{91} The \textit{Pure Imagination} court is not the only other court to avoid answering the effects of Internet use in determining common law trademark rights. \textit{See, e.g.}, Allard Enters., Inc. v. Adv. Programming Res., Inc., 249 F.3d 564, 575 (6th Cir. 2001) (“We suggest that, due to the paucity of caselaw addressing concurrent trademark rights and internet use, the district court may want to consider cases addressing the role of national advertising by parties with concurrent trademark rights. Courts have held in some cases that, despite a concurrent user with a territory of exclusive use, an almost-national user should be permitted some form of national advertising . . . . In a more straightforward case in which a senior user holds a federal registration subject to limited concurrent rights of a junior user, permitting some form of Internet use seems necessary; otherwise, if two parties have concurrent rights to the same mark in distinct geographical areas, neither party would ever be allowed any use of the internet. The present case, however, is complicated by the fact that Allard has obtained a federal registration and that APR’s initial implementation of its web site appears to have occurred prior to Allard’s registration. \textit{We therefore leave it to the district court to evaluate the arguments and the unusual facts of this case in the first instance on remand.”}) (emphasis added).

\textsuperscript{92} \textit{See generally id.}
businesses, it is unclear if Projob’s Internet-only services and products would give it nationwide common law protection under § 1115(b)(5).

What potential solutions exist to protect innocent common law users—like small software startups—who use the Internet as their lone marketplace and are able to achieve use across the country but fail to register their mark? What remedies, if any, are available to Internet-based companies such as Projob?

III. SOME POSITED SOLUTIONS FOR CONCURRENT USE ON THE INTERNET

In analyzing the problems of concurrent use in a purely virtual environment, earlier authors proposed judicial solutions that follow one of two paths. This Part will elucidate these two distinct arguments and provide a framework for debate. Subpart A explains the current zone-based analysis, which defines a seller’s zone of goodwill and its attendant facts and analogizes to personal jurisdiction and infringement based tests. Subpart B then describes the alternative option of Internet-based solutions which some authors argue may be used to avoid consumer confusion and prevent infringement.

Although subjected to some judicial analysis and questioning, neither proposal has found universal judicial acceptance.

A. Zones and Analogies

The first solution some authors propose is to analogize to different types of geographic tests to determine the extent and substantive interaction a web-based seller has with a specific area. Since no case has yet determined, nor has an article proposed, that merely existing on the Internet provides nationwide priority/rights or creates a special exception for Internet use, online sellers must still prove their zone of goodwill. The unique problems of the Internet, however, make the standard tests ineffective—namely, a business’s zone of goodwill on the Internet lacks a readily definable scope.

---


94 See, e.g., Nupp, supra note 39, at 651–66.

95 See, e.g., Creasman, supra note 57, at 1023–29.

96 Id. at 1022.

97 See id. (“The information available through the Internet affects the elements of the traditional tests, particularly in narrowing the common law good faith element
Therefore, the first proposed solution is to analogize to other tests—like the fundamental judicial personal jurisdiction test and the classic trademark infringement test—that may be used to find a natural limitation on an Internet seller’s scope of involvement in a geographic area.98

First, some authors have looked to the test for personal jurisdiction in federal courts to determine an Internet-based user’s zone of goodwill. If a seller’s level of Internet activity is sufficient to subject the seller to personal jurisdiction in federal court, it would similarly be sufficient to establish a zone of goodwill.99 The minimum contacts of International Shoe100 and its progeny establish the benchmarks to establish personal jurisdiction, and for Internet-based activities, the Zippo test applies.101 The Zippo test operates on a sliding scale, on which passive websites that do not advertise, sell, or engage in business in a jurisdiction do not have sufficient contacts to warrant personal jurisdiction.102 Conversely, an active website that performs these activities would likely have sufficient contacts to merit personal jurisdiction.103 The ultimate analysis is fact based, “examining the level of interactivity and commercial nature of the exchange of information that occurs on the Web site.”104 Though there is limited case law on the analysis as it relates to concurrent geographic use, one court has signaled that specific targeting of a state’s citizens and substantial sales in that state would be sufficient.105

---

98 See Creasman, supra note 57, at 1023.
99 See id.
102 Id. For an example of a passive website, see Wikipedia.org, http://www.wikipedia.org.
103 Id. For an example of an active website, see Amazon.com, http://www.amazon.com.
104 Id.
105 See Hy Cite Corp. v. Badbusinessbureau.com, LLC, 297 F. Supp. 2d 1154, 1161–62 (W.D. Wisc. 2004) (stating that “[A] website’s level of interactivity may be one component of a determination whether a defendant has availed itself purposefully of the benefits or privileges of the forum state. For example, a finding that a defendant uses its website to engage in repeated commercial transactions may support the exercise of personal jurisdiction, so long as there is a corresponding
The alternative standard this option suggests is to analogize to a unique marketing channels test teased from the Ninth Circuit’s infringement standard for likelihood of confusion.106 The various jurisdiction-specific tests, which need not be reconciled here, each contain a factor akin to the “similar marketing channels” factor for infringement.107 The Ninth Circuit developed a three-part test for determining conflicting use within similar marketing channels: (1) has the Internet been used as a substantial marketing and advertising channel, (2) have the parties used the marks in conjunction with Web-based products, and (3) do the parties’ marketing channels overlap in any other way?108 Thus, this test may be used to determine if a party’s use of the Internet sufficiently constitutes a marketing channel, and if so, this might serve to establish a zone of goodwill as well. However, while this test might help a business prove that it has a zone of goodwill on the Internet, the test does not delimit the parameters of the zone. Proponents of this analysis do not give a standard to determine how a common law junior user can use part of the Internet, while being enjoined from using the area in which the user has not established a zone of goodwill.

B. Band-Aid on a Bullet Hole

The second option treats the symptoms, as opposed to the source.109 Unlike the first option, which attempts to sort actual goodwill and zone of goodwill from nonsubstantive regional connections, this “symptoms” option promotes the existence of both confusingly similar marks on the Internet.110 Although allowing concurrent use of confusingly similar marks, its proponents believe that this solution provides sufficient specified mechanisms for the prevention of customer confusion.111

First, proponents argue that if the problem occurs as a result of Internet-specific usage, then an Internet-specific remedy would be effective to fix the issue.112 One possibility includes posting a large
disclaimer on the junior user’s website, explicitly disclaiming affiliation with the senior user’s site. Second, linking to each others’ sites, or in the alternative, creating informal ties between parties’ sites through metatags and titles, would be effective at eliminating confusion. Alternatively, a neutral third site could serve as a clearinghouse for both sites, with links to both pages; or, due to the inefficiency of search engines, similar metatags and titles may be inserted into each site’s parameters, leading consumers to both. Finally, the sites could be required to purchase and sustain a regional or generic top-level domain name, which would help to distinguish the sites, while still allowing concurrent use of the marks. With the modern release of 1000 new generic top-level domain names each year starting in 2011, this seems like a possibility for the avoidance of confusion.

While something can be said for trying to find simple fixes to these Internet problems, the “symptoms” approach seems to be unworkable. Though these options could potentially solve the first glance customer confusion issue, disclaimers would not solve initial interest confusion or recover the profit a site may make from errant clicks and misdirection to its site. Nor do the proponents demonstrate who would regulate this rule or determine the requirements for a legally effective disclaimer. Linking to other sites would likely only further confuse consumers who might assume that there is a relationship between these organizations, thereby making the fix worse than the problem. Further, requiring the use of generic top-level domain names would likely be unfeasible because the starting application price begins at $185,000. It seems unlikely that anyone would choose to exercise this alternative, even if they were financially solvent enough for this to be viable.

IV. A CATEGORICAL ANALYSIS OF THE PROPOSED SOLUTIONS

Contrary to the options listed above, there are alternative remedies available which lie beyond the scope of judicial decision making. There are at least three available options for resolving the

113 Nupp, supra note 39, at 655.
114 See id. at 655–65.
115 Id.
116 Id. at 665–66.
118 Id.
problem of concurrent use, which are discussed in this Part below. Subpart A will examine the costs and benefits of leaving the regime as-is: allowing the courts to develop a common-law approach to concurrent geographic Internet use. Subpart B will propose an amendment to the Lanham Act to accommodate these types of cases that break down the traditional analysis, carving out an exception similar to the anti-cybersquatting\(^\text{119}\) and trademark dilution exceptions.\(^\text{120}\) Finally, Subpart C will argue that Congress should revise the Lanham Act substantively, acknowledge that trademarks are in fact property rights in gross, and change the nature of trademark law.

A. Solution One: “If It Ain’t Broke, Don’t Fix It”

The first option for dealing with cases of Internet concurrent use and geographic priority is to leave the doctrine as it stands. In accordance with the solutions listed in Part III above, this option would leave the Lanham Act untouched, and courts would be called upon to fashion geographic parameters and remedies as they arise. These are the solutions posed by the courts in Part II.B and the scholars in Part III\(^\text{121}\) that analogize to tests from other legal sources or apply creative remedies in solving the problem of Internet-based concurrent use.

There are some benefits to the continuation of this regime. This type of line drawing is the province of courts generally, and courts are ideally equipped to make these distinctions and resolve the contests as the equities require. Additionally, the courts already apply and understand the zone of goodwill test and the concurrent use doctrine in cases involving brick-and-mortar businesses.\(^\text{122}\) Asking them to apply the doctrine to analogous circumstances is not outside the scope of a court’s capabilities. Moreover, this is the type of analysis that the courts are currently engaging in \textit{sua sponte}, when they choose to acknowledge the issue.\(^\text{123}\) Though tentative now, courts have indicated that in the future both the personal jurisdiction Zippo test and the zone of goodwill test might be used to carve out


\(^{120}\) Id. § 1125(c).

\(^{121}\) See Creasman, supra note 57, at 1023–29; see also Nupp, supra note 39, at 651–66.

\(^{122}\) See, e.g., United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 100 (1918).

territories and resolve concurrent use debates.\textsuperscript{124} The fact that courts have begun to organically create solutions to these \textit{sui generis} sets of circumstances gives great weight to the viability and sensibility of this option. Further, the myriad permutations of circumstances make difficult the creation of a bright-line rule or amendment to the Lanham Act. Situations may be envisioned in which purely virtual businesses merge into the real world market and vice versa, thus rendering the rights of a mark holder unpredictable in the face of a bright-line rule. With such varying circumstances, the courts are the ideal fora in which to draw the necessary lines.

While reasonable, these solutions seem a bit myopic; focusing on ad hoc, unpredictable judicial crafting to resolve the issues as they present themselves. The first option, rule by analogy, focuses on the use of the personal jurisdiction test, the zone of goodwill test, and an analogy to infringement.\textsuperscript{125} This solution is inefficient because the tests are ill-suited to deal with purely Internet-based companies. Sales and actual market presence are inept barometers for companies that may have limited sales with geographically extensive reach. If a company were to sell one product to a huge company that distributed the product to each of its satellite offices in every state, the selling company would be nationwide in scope and reputation, while only having made one sale. Additionally, the tests that focus on physical geographic line-drawing are ineffective at corralling purely virtual companies.

The proposed Internet-based solutions are equally ineffective.\textsuperscript{126} To allow concurrent Internet use of trademarks while attempting to prevent actual consumer confusion is laudable, yet the practical implications of this proposed solution make the proposal inapposite. If two companies were permitted to use confusingly similar marks, they would inevitably end up in litigation which would span many years at a dramatic cost. Moreover, while these companies litigate, their marks are still on the Internet, confusing consumers. Extrapolate this by the frequency of Internet-based companies starting

\textsuperscript{124} See, e.g., Hy Cite Corp. v. Badbusinessbureau.com, LLC, 297 F. Supp. 2d 1154, 1161 (W.D. Wis. 2004) (“The website's level of interactivity may be one component of a determination whether a defendant has availed itself purposefully of the benefits or privileges of the forum state”); see also \textit{Pure Imagination}, 2004 WL 2967446, at *12 (“Courts have declined to find market penetration when a party cannot establish that it has engaged in more than de minimis activity within that market”) (citing Natural Footwear Ltd. V. Hart, Schnaffer & Marx, 760 F.2d 1383, 1400 (3d Cir. 1985)).

\textsuperscript{125} See, e.g., Creasman, supra note 57, at 1023–29.

\textsuperscript{126} See Nupp, supra note 39, at 655–65; see also Prevas & Yue, supra note 93, at 195–98.
and marks on the Internet spawning every day, and the potential for confusion is exponentially large. Further, allowing the courts to fashion ad hoc unique remedies for every case will not deter a company from using confusingly similar marks. A simple disclaimer posted on a site or linking to another’s site do not have the deterrent impact of a flat bar on use and penalty for invasion. These Internet solutions present no predictability, and the randomness of the solutions created ad hoc would be staggering. Thus, this option seems especially ill-suited given the fast-growing nature of the Internet and the increasing sluggishness of litigation.

Panning out from this narrow analysis, trademark law application by the courts is notoriously fickle and laden with multifactor tests. Furthermore, each jurisdiction crafts its own test and factors for many of the discipline’s most prevalent problems. More problematic is the inconsistent treatment of similarly situated litigants and inconsistent weighting of factors even when these multi-factor tests are comparable in form. Geographic concurrent use on the Internet is yet another issue in which the courts are being called on to make consistent law. Nevertheless, no uniformity appears likely in the foreseeable future. Courts currently seem unwilling to resolve the issue directly and rightfully so, as the limitless permutations of the Internet render any solution eventually insufficient. Moreover, there is almost no chance that the Supreme Court will address this fairly narrow problem. Therefore, the potential users of these marks and future litigants would be subject to this solution’s most patent

---

127 The multi jurisdictional analysis for trademark infringement provides ample support for the contention that courts have difficulty finding unity when crafting these tests. See, e.g., Polaroid Corp. v. Polarad Elects. Corp. 287 F.2d 492, 495 (2d Cir. 1961); Century 21 Real Estate Corp. v. Lendingtree Inc., 425 F.3d 211, 224 (3d Cir. 2005); Sno-Wizard Mfg., Inc. v. Eisemann Prods. Co., 791 F.2d 423, 428 (5th Cir. 1986); Homeowners Group, Inc. v. Home Mktg. Specialists, Inc. 931 F.2d 1100, 1106 (6th Cir. 1991); Smith Fiberglass Prods. Inc. v. Ameron, Inc., 7 F.3d 1327, 1329 (7th Cir. 1993); SquirtCo. v. Seven-Up Co., 628 F.2d 1086, 1091 (8th Cir. 1980); E. & J. Gallo Winery v. Gallo Cattle Co., 967 F.2d 1280, 1290 (9th Cir. 1992); Coherent, Inc. v. Coherent Techs., Inc., 935 F.2d 1122, 1125 (10th Cir. 1991).

128 Compare E & J Gallo Winery v. Consorzio del Gallo Nero, 782 F. Supp. 457 (N.D. Cal. 1991) (finding that a possibility of confusion is sufficient and considering wine buying public indiscriminate and unsophisticated), with Banfi Prods. Corp. v. Kendall-Jackson Winery Ltd., 74 F. Supp. 2d 188 (E.D.N.Y. 1999) (holding that evidence of likelihood of confusion is necessary on an infringement claim, and considering the relevant wine consuming public to be a sophisticated, discriminating group).

flaw, unpredictability. The solutions proposed above would rely on courts to fashion both rules and remedies, leaving litigants with minimal guidance on how to argue a claim and what to expect should they attempt to assert their rights. Unlike the authors above and in light of the courts’ seeming unwillingness to confront the problem at its source, we believe that the more realistic and utilitarian solution lies within the decision-making power of Congress.

B. Solution Two: Lanham Act Revision

The halfway step to a system-wide overhaul of American trademark law is a moderate and necessary compromise that would address the looming problem of what protections a common law Internet-only business has in its mark. Unlike the proposed solutions above, which emphasize ad hoc, fact-based judicial decision making, this Subpart proposes a uniform amendment to the Lanham Act to specifically address the traditional protection for common law users and update these protections to account for common law Internet users. This Subpart first discusses the proposed addition of § 1125(e) to the Lanham Act. Second, this Subpart argues why a revision is more appropriate and helpful than the ad hoc, case-by-case analysis proposed in Subpart A. Third, this Subpart argues that this type of revision is not unique and has already been used to adapt the Lanham Act to the changing business environment propelled by the Internet. This Subpart concludes by discussing why even this compromise, while potentially effective, is more than likely only a stopgap remedy to an overall systemic problem in trademark law.

1. The Proposed Addition to the Lanham Act

§ 1125
(e) Use in Commerce on the Internet.

(1) For the purposes of establishing the appropriate area of continued use set out in § 1115(b)(5), with regards to use in commerce on the Internet, the party that first uses a mark on the Internet shall have the right to prevent another’s mark on the Internet if the other’s mark will cause a likelihood of confusion.

(2) A party has established use in commerce on the Internet if its activities would constitute bona fide use in commerce analogous to bona fide use in any non-de minimis physical geography. A court may consider
the following factors in determining bona fide use in commerce:

(A) the party’s dollar value of sales at the time another party enters online marketing;
(B) relative and potential growth of sales;
(C) the ratio of actual customers to potential customers;
(D) the length of time since significant sales; and
(E) the degree of online advertising.\(^{130}\)

(3) If a court finds that a party has established its right to use a mark on the Internet pursuant to § 1125(e)(2) and is not registered pursuant to either § 1051 or § 1091 of this title, that party has nine months to file a registration application for its mark with that agency or the mark will be deemed abandoned with respect to use on the Internet.

2. Benefits of Revision over Ad Hoc Analysis

This proposed addition to the Lanham Act attempts to address two major problems with current opinions that have touched on common law Internet use: the current ad hoc method of analyzing cases is disjointed and lacks uniformity, and the proposed statute gives common law users a chance to keep their mark on the Internet. First, as discussed above, courts are still grappling with (or, perhaps more accurately, dodging) the question of the Internet and common law geographic limits.\(^{131}\) This hesitancy to firmly resolve the problem through judicial analysis suggests that Congress is needed to provide at least a framework to resolve this issue in the future. Not only would a Congressional response provide a uniform system for analyzing common law Internet use in commerce questions, but courts would all have the same reference point to decide cases on the merits. The proposed provision is specific enough to address the problem by

---

\(^{130}\) These factors are taken from *Natural Footwear*. Natural Footwear Ltd. v. Hart, Schnaffer & Marx, 760 F.2d 1383, 1398–99 (3d. Cir. 1985) (citing Sweetarts v. Sunline, Inc., 380 F.2d 923, 929 (8th Cir. 1967)).

framing the parameters of the question, but flexible enough to give courts the ability to still conduct a case-by-case analysis.

Second, this proposed addition attempts to protect common law users who have invested their time and energy into establishing bona fide use in commerce on the Internet while still requiring them to “conform” to others who have registered with the USPTO. The nine-month grace period is established for those common law users who have spent considerable efforts to establish their presence on the Internet. However, the provision has a harsh consequence for not registering within the period following judicial determination of rights: total loss of the right to use the mark on the Internet. This system seems relatively equitable because it gives the first party that can demonstrate bona fide use on the Internet a priority on the Internet, irrespective of USPTO registration. Due to the ubiquitous nature of the Internet, no one can “split the baby” between two mark users. Borrowing from patent jurisprudence, this provision effectively gives the first person to prove bona fide use in commerce on the Internet a monopoly on the mark as concerns the Internet, assuming any common law user begins the registration process within nine months after judicial notice is taken of the user’s rights. Further, this forced registration provision allows the Lanham Act’s protections and obligations to be compelled, and prevents the registration requirements from lapsing into desuetude. By forcing the common law user to register, it keeps the Lanham Act valid and useful, and allows the provisions to operate as created. The burden of registering will not be excessive, as it requires only an application and fee if a user can show bona fide use.

3. The Section 1125(e) Common Law Internet Use Revision Is in Good Company

The courts and, more frequently, Congress have created specific rules and legislation to fix both Internet-related and non-Internet-related problems. Therefore, carving out another unique section in the Lanham Act is neither novel nor unprecedented. For example, Congress passed the Anti-Cybersquatting Consumer Protection Act in 1999 to address the problem of businesses or individuals registering domain names in bad faith.132 Congress also passed the anti-dilution provisions in 2006 which give heightened rights to famous marks and protect them from blurring or tarnishing by similar marks.133 Furthermore, some courts have had to create

---

common law rules to handle certain Internet problems, such as the idea of “initial interest confusion,” which prevents a party who has a confusingly similar web address from profiting from a consumer’s accidental visit to its website, even if there was no confusion as to the source once consumers arrived at the other party’s website.\footnote{See, e.g., Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc., 109 F.3d 1394, 1405 (9th Cir. 1997) (applying the initial interest confusion doctrine to the use of a book title); Mobil Oil Corp. v. Pegasus Petroleum Corp., 818 F.2d 254, 259–60 (2d Cir. 1987) (applying the initial interest confusion doctrine in the context of oil trading services).}

In examining the impact of this proposed Lanham Act revision, we realize that this may be a temporary solution to a much larger problem. While making another allowance may be the most realistic solution at this point, it represents another step down the inevitable path toward the recognition of trademarks as something more than mere source identifiers. Therefore, while we recommend that this revision be made at this time, in the future, a more systemic solution will very likely be necessary.

C. Solution Three: Trademarks as Property Rights

In light of the solutions presented above, and with the understanding that a perfect exception cannot be crafted to fit every scenario, this Subpart argues that a more fundamental shift needs to occur to bridge the current gap spanning idealism and reality. This Subpart will first explain the fundamental assumptions of trademark law and the history of defining trademarks as source identifiers. Next, it will challenge the classical assumptions of trademark law and identify weaknesses in the concept of trademark rights appurtenant to use as it relates to today’s products and marketing schemes. Third, this Subpart will discuss recent revisions to the Lanham Act and how these changes demonstrate the two competing interpretations of trademark value and how the revisions suggest a trend away from traditional trademark rationales. Finally, this Subpart will recommend a new diversion from the current regime.

The current form and function of trademark law revolves around the recognition of trademarks as source identifiers, or more specifically, as the goodwill of a company.\footnote{Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 412 (1916).} The possibility of recognition of a trademark right as property, akin to a copyright or patent, has been flatly rejected.\footnote{United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 101 (1918).} But as the law has developed and the commercial environment evolved, the fact remains that the
ideology behind these older decisions is not in line with the modern view of trademark value. To reconcile this apparent disconnect, the last available option is to finally, once and for all, recognize what the statutory amendments have been signaling, that trademarks are in fact rights in gross, and should be protected as such. The gravity of this argument is not underestimated, and a systemic rewrite of the Lanham Act would be necessary to accomplish this goal.

If Coca-Cola were to sell its trademark tomorrow, what would be a reasonable asking price? Nothing? Hundreds of millions of dollars? Trademark law is based on the notion that Coca-Cola’s mark merely represents the source of the goods, which allows the customer to rely on the goodwill of the company. However, one need only look to other markets and cross-pollination of marks to see that the value of a mark, in today’s rampantly materialistic society, has a much more intrinsic value. A prime example is a Justin Bieber book bag. When a consumer buys a backpack with Justin Bieber’s likeness and branding features on it, is she buying it because she relies on the quality she has come to expect from the Justin Bieber brand? Likely not. The Justin Bieber mark owner licenses this mark to the highest bidder in an attempt to make a profit. The consumer values the mark as a mark, and not as an identification of source. Unlike certification marks, which are used to signal a quality threshold or compliance with certain standards, marks like Justin Bieber are sold and licensed for their face value. This seems contrary to the classical notions of trademark value.

Additionally, we have seen through the Lanham Act revisions the tacit acceptance of the intrinsic value of trademarks. The Anti-Cybersquatting revision to the Lanham Act respects the goodwill, value, and effort a mark holder has put into developing a mark. It gives the mark holder a remedy against one who registers a domain name which is confusingly similar or a direct reproduction, specifically, when the buyer registers the domain name merely to sell it back to the senior holder. This provision allows the senior mark holder a remedy against the domain registrant, despite a lack of consumer confusion or issues concerning competition. This patently accepts the notion that a trademark has a protectable value as a mark, outside of consumer confusion and source identification, and gives the senior holder a remedy against a cyber-squatter. At the very least, this shows that Congress understands that consumers are not the only party in need of protection.

---

137 See Hanover, 240 U.S. at 414.
139 See generally id. § 1125(d).
A fortiori, the Anti-Dilution Act explicitly grants a famous mark holder a right and a remedy to challenge a user who may likely dilute by blurring or tarnishing the famous mark. More so than anti-cybersquatting, this remedy recognizes a right to protect the value of a mark, “regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.” This protection, free of the normal constraints of demonstrating injury or competition, recognizes the intrinsic value of famous marks and protects them from circumstances that may diminish the value of their goodwill.

As stated in above, allowing for a mark monopoly on the Internet by way of a Lanham Act revision is not an entirely new concept. In fact, it would be the next inevitable step on the path toward re-categorizing trademark value in line with the anti-cybersquatting and anti-dilution revisions. However, this would be another symptomatic solution to this inherently systemic problem. Were Congress to rewrite the Lanham Act—acknowledging de jure what trademarks seem to be in fact—it could be written more succinctly, protecting it from a fate similar to that of hearsay in evidentiary law: a general rule riddled with countless exceptions that seem to swallow the rule itself. Without this fundamental rewrite, the Lanham Act will likely continue to become more complex and could eventually become like copyright law’s Digital Millennium Copyright Act, which prevents anyone but specialists from deciphering its code.

Additionally, defining trademarks as property rights in gross would serve the underlying purposes of trademark law more effectively than the current regime. What better way to protect against consumer confusion than by use of a flat bar against anyone other than the registered holder? If potentially infringing companies feared the system, as copyright infringers do, there would be less confusion in the marketplace, and a dramatic reduction in counterfeiting. If marks were deemed to be property rights in gross, the rules would be clearer, the lines distinctly drawn, and consumers and producers alike would be protected.

---

140 Id. § 1125(c)(1).
141 Id.
144 FED. R. EVID. 803, 804.
Finally, taking the infringing marks off the market would not result in a substantial disadvantage to the buying public or the competition. The current registration rules against functionality\textsuperscript{146} and distinctiveness\textsuperscript{147} can remain intact to protect against the appropriation of common words and functional marks. Use or intent to use can still be required to maintain rights.\textsuperscript{148} This protects competitors against dormant mark holders holding their rights without use, and keeps the use foundation alive in trademark law. Additionally, there are countless words and iterations of the English language. Unlike a copyright or patent, where the removal of products from the market hurts the consumer, removal of certain words or pictures will never serve to hurt consumers, or competitors. Potential merchants have an endless supply of other words and options still available for creation of a mark.

V. APPLICATION OF THE THREE OPTIONS TO PROJOB

In applying the foregoing options to our hypothetical company in this Part, the facts should be recounted: (1) Projob Technologies is a purely virtual company with an online presence only, (2) it sells only online services and no goods of any kind, and (3) it is unregistered with the USPTO. We assume for the sake of the example that it is a senior user and has established some level of common law rights to the use of its mark. Additionally, we presume that a junior user has entered the Internet with a confusingly similar mark and has attempted to register it. This Part will analyze Projob’s status under the current regime, and will determine what rights, if any, Projob may rely on. Next, it will briefly analyze Projob within the framework of the limited Lanham Act amendment proposed above. Finally, it will ponder Projob’s rights in a systemically revised Lanham Act world.

A. Ad Hoc judicial Analysis

This option would leave Projob in an unpredictable quandary. There is no way to predict how a court will handle this situation, and history has shown that the only thing that Projob could rely on is that the court will likely avoid the issue and decide it on alternative grounds, likely against Projob’s interests. Thus, there is no reasonably predictable solution for this scenario.

\textsuperscript{147} See generally id. § 1052.
\textsuperscript{148} Id. § 1051(a), (b).
B. Section 1125(e) Revision to the Lanham Act

Were this amendment ratified, Projob would likely have some rights to assert. Though unregistered, the new amendment would allow Projob to establish its bona fide use on the Internet and, if it can meet the threshold requirements, effectively preclude the junior user from entering its market—i.e., the Internet. However, upon the judicial determination of bona fide use, Projob would have ninety days to register in order to prevent the constructive abandonment of its mark.

C. Systemic Rewrite of the Lanham Act

Though Projob’s rights would be difficult to predict precisely in this scenario, a few general observations can be made. Projob’s first appropriation would likely give it priority and an effective remedy against confusingly similar marks from any infringer. Provided it could establish use sufficient to gain property rights, it could assert these offensively against this confusingly similar junior user in all markets, not just the Internet. Ideally, this situation would not arise under a new regime because junior users are more effectively deterred from entering a market, understanding that mark holders will protect their property rights fervently and without limit. We predict trademark infringement would begin to resemble copyright infringement, with similar enforcement strategies and remedies.

VI. CONCLUSION

In the foregoing analysis, we hope to have shown that the current trademark regime is at best ill-equipped to handle the technological advances of the Internet, or at worse, ominously positioned to endure a fundamental break. From the forced analogy of geographic concurrent use doctrine to the internal inconsistency in the Lanham Act, trademark law is uniquely poised to recognize its shortcomings, and depart from its currently splintered path. Should Congress choose to depart, it could provide much needed clarity in the field of trademark law and simplify the Lanham Act; this would be of benefit to consumers and businesses alike. However, we understand that it may be too progressive to change the nature of trademark law and rewrite the Lanham Act in its entirety now, and that Congress may prefer to riddle with exceptions a perfectly clear rule rather than fundamentally rewrite the ill-fitting law.

Therefore, the interim proposal stated above proposes the insertion of a new exception into the Lanham Act governing concurrent use on the Internet and the rights that are created. This
would provide needed clarity in what will certainly become a burgeoning set of cases in the future. With the overwhelmingly comprehensive influence of the Internet on the buying public, we can expect more online transactions, and more Internet cases. Additionally, Congress could use this exception as a platform for reinforcement of the registration procedures, which would bring more companies into compliance with the Lanham Act provisions, and provide uniformity both in the law, and in practice. Should Congress refuse to amend the law, the courts will likely continue down the splintered path they are on, leading to more fragmentation and an inability of litigants to predict the parameters courts will use to decide their geographic boundaries and rights to use on the Internet.