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INTELLECTUAL PROPERTY ADVISER

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Information about Copyright, Trademark, Patent and Technology Law

Trademark Dilution Law Changes

On October 6, 2006, President Bush signed into law the Trademark Dilution Revision Act of 2006. This amendment is widely regarded as a response to the U.S. Supreme Court's decision in the well-publicized *Victoria's Secret* case. It will now be easier for trademark owners to combat those who trade upon the renown and goodwill of well-known trademarks.

Prior to 1996, trademark owners faced dilemmas under federal trademark law. What recourse would a trademark owner have if its brand for, say, cereals, was used by another company with spark plugs? Consumers might never mistake the brands or companies because of the distance between the products, making it impossible to satisfy the "likelihood of confusion" standard required for a trademark infringement claim. However, the famous brand's strength and uniqueness could be slowly diluted as multiple companies used similar brands in different parts of the nation's economy. Additionally, what could the owner of a trademark for pre-school education products do to stop a porn website from utilizing a similar brand name in a fashion which would never cause consumer confusion but which would severely tarnish the brand or the company's business simply because of the association of the brand with the activity.

For decades, trademark owners relied primarily upon common law protections against trademark dilution. Congress then enacted the Federal Dilution Act of 1995 in an attempt to provide nationwide and more uniform protection against trademark dilution. Unfortunately for those seeking clarity, the language used in the statute varied from the well-known standard for trademark infringement, and federal courts quickly came to divergent opinions about how to interpret the statute. The fight turned upon whether a trademark owner was required to prove a "likelihood of dilution" or "actual dilution" under the statute. If the statute was read to require proof of "actual dilution," then it was almost impossible for a very famous brand owner to prove actual dilution. Afterall, would consumers be unable to recognize the source of the Nike or Coca-Cola brands simply because medical equipment is sold under a similar name.

> *It will now be easier for trademark owners to combat those who trade upon the renown and goodwill of well-known trademarks.*

The split came to a head in the "Victoria Secret" case, *Moseley v. V. Secret Catalogue, Inc.*, 537 U.S. 418 (2003). Based upon a strict interpretation and literal reading of the statute, the Supreme Court found that in order for Victoria's Secret to prevail against the adult novelty store named "Victor's Little Secret," the famous retailer had to prove actual dilution.

The Trademark Dilution Revision Act of 2006 responds to that decision and enhances the federal statute against dilution in two major ways. First, it junks the requirement of proving actual dilution in favor of the "likelihood of dilution" standard. The statute states:

> Subject to the principles of equity, the 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. H.R. 683 § 2

Second, the statute defines two distinct forms of dilution – dilution by tarnishment and dilution by blurring.

INSIDE THIS ISSUE

Dilution by blurring is defined as an "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark." *Id.*

Dilution by tarnishment is defined as an "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark." *Id.*

If the trademark owner proves dilution, it could possibly be awarded an injunction, damages, the defendant's profits, attorneys fees and more.

The federal dilution statute will likely remain the subject of litigation and interpretation as the owners of famous trademarks utilize it to try to protect their rights against those who poach on their brands. The law also has other provisions not discussed in this article. ■

NEWS IN A NUTSHELL

LESS FREQUENT PATENT INJUNCTIONS: In a patent case involving eBay, the Supreme Court recently ended the Federal Circuit's old rule that a permanent injunction should always be entered after a finding of patent infringement except under "exceptional circumstances." The Supreme Court held instead that the decision to enter a permanent injunction in a patent case is subject to the same equitable discretion and tests applied in other injunction cases. *See eBay, Inc. v. Merc Exchange, L.L.C.*

MARKET POWER NOT PRESUMED FOR PATENTS: The Supreme Court recently considered the legality of tying arrangements under federal anti-trust law. The Court determined that the mere fact that one of the products in the tying arrangement was patented did not create a presumption of market power. *See Illinois Tool Works, Inc. v. Independent Ink, Inc.*

FALL 2006

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Use of Music in Broadcast Commercials and Promotions

While television and radio stations pay music performance licensing fees to ASCAP, BMI, and SESAC, those licensing fees only permit the broadcast of licensed songs on the station and not the reproduction of those songs in commercial spots, promos, or PSAs. To use popular or other copyrighted music in spots, a station must secure additional licenses. These are generally called "reproduction," "mechanical," and/or "master use" licenses; they are specifically called "synchronization" licenses for music "synched" to video for television commercials.

To understand how music licensing works, it is important to understand that all recorded music consists of two distinct copyrights. First, there is a copyright in a song's "musical composition," also known as a "musical work." In general, this copyright is typically owned by the songwriter and/or his or her music publisher and basically protects the sheet music, which is comprised of the written music notes and lyrics. Second, there is a copyright in a song's "sound recording," which is the actual recording of the music, as contained on a CD, a computer hard drive, or other media for audio playback. A song's sound recording copyright is typically owned by a record company. Thus, while sometimes one person or entity may own a recorded song's musical composition and sound recording copyrights, often there are at least two parties (the music publisher and the record company) with protectable interests in a recorded song.

The number and types of licenses required for use of copyrighted music in broadcast commercials depend on the broadcaster's or advertiser's intended use of the music. If the station or advertiser intends to "dub" an original recording into the commercial, then the station or advertiser must have permission from both the owner of the musical work and the owner of the sound recording. If the station or advertiser intends to re-record (i.e., not dub or copy an existing recording) a song (which could also involve changing the lyrics), then the station or advertiser only needs permission from the owner of the musical work.

Unfortunately, there is no easy and streamlined way to secure the proper licenses for use of copyrighted music in commercials and similar programming. At one time, the Harry Fox Agency (offered synchronization licenses for most popular music; however, the Harry Fox Agency discontinued that service in 2002. So, to secure a license for a musical work, you will need to contact the publisher directly. You can obtain publisher contact information using the repertory databases maintained by ASACP (www.ascap.com), BMI (www.bmi.com), SESAC (www.sesac.com), and/or the Music Publishers' Association (www.mpa.org). If a sound recording license is also needed (e.g., for dubbing an original recording), you will also need to contact the record company directly. Record company contact information can sometimes be obtained by the music publisher and is often also available on the copy of the recording (e.g., the CD liner notes). Publisher and record company contact information may also be located on the U.S. Copyright Office's website (www.copyright.gov).

Of course, music publishers and record companies are not required to grant a broadcaster or advertiser commercial reproduction licenses. And even if the copyright owners are agreeable to a license, the license fees can range from nothing to hundreds of thousands of dollars. Sometimes owners may be reluctant to license a song for commercial use for fear that an identification with a specific product or service may dilute or adversely affect the popularity of the song.

Those who wish to secure commercial reproduction licenses may wish to seek assistance from legal counsel or copyright clearance services, such as Music Reports, Inc. (www.musicreports.com) or Signature Sound (www.signature-sound.com).

Under certain circumstances, a broadcast station or others can be held liable for copyright infringement in a commercial spot even if they did not produce the spot.

The complexities of music licensing are the primary reasons broadcasters and advertisers often purchase content libraries containing "canned" or "needle-drop" music (typically original, recorded instrumental music). As long as such a content library expressly permits the music content to be used in commercials, then no further licenses are required and the licensing process described above can be avoided.

Finally, please note that under certain circumstances a broadcast station or others can be held liable for copyright infringement in a commercial spot even if they did not produce the spot. So, for such spots, you should always confirm that the advertiser has obtained the proper copyright clearances. Additionally, you should make sure that your standard advertising contract contains indemnification language so that you have recourse against the advertiser in the event the advertiser's spot infringes a copyright and the station incurs liability.

In recent years, record companies and music publishers have vigorously enforced their copyrights. Statutory damages for copyright violation can amount to $150,000 per infringement and criminal infringement is punishable by up to 10 years imprisonment. Therefore, it is very important for broadcasters to monitor carefully the use of music in commercial spots (and PSAs and promos) and to secure all necessary copyright licenses. ■

The Importance of Trademark Maintenance and Check-Ups

Consider whether your business wants to confront these issues:

- A knock-off website refuses to stop using a brand similar to yours and claims that your company failed to register your trademark, even though you've been using it for decades.

- The potential acquirer of your company says you don't have your latest – and best – brand registered as a trademark. It then uses that fact as justification for a reduction in its offer.

- Your new lender wants to delay a closing because the trademark registration for your company name expired without renewal.

- Your company was diligent protecting brands in the past, but trademark protection issues were put on the back burner, and now your new brands lack formal registrations.

Surprisingly, some successful, growing companies have found themselves in similar positions. They have been rudely awakened to learn that they have forgotten to protect their newer brands or that their old trademark registrations had lapsed. Sometimes, the person designated to oversee brand protection had transitioned into another role or even another company. Other times, the company focused on protection issues in the past, but then failed to get "check-ups" to determine whether the old array of protection still made sense as new brands were introduced and the company evolved.

Trademark registrations issued in the United States after November 16, 1989 last for ten (10) years. *See* 15 U.S.C. §§ 1058-59. In order for a registration to survive to the end of that initial ten-year term, the trademark owner must make a mid-term filing between its fifth and sixth years proving that the owner continues to use the trademark. If the interim filing is not made, the registration will be cancelled after the sixth year. A major purpose of that law is to clean out dead-wood registrations. If a trademark owner is not careful, however, its registration will also be tossed out.

At the end of the registration decade, the trademark owner should consider applying for a ten-year renewal. Without a filing, the registration will expire. Trademark rights can also evaporate by an intentionally abandonment of the brand or a failure to use the trademark for multiple years, even if the registration appears to be valid on the government's books.

In order to avoid the jams described above, consider engaging in regular "trademark checkups." Working with counsel, you can verify that you have registered the names, logos, and brands that you want protected. It is a good opportunity to update old registrations, register new brands, and obtain more peace of mind about your intellectual property rights. ■

FIRM CORNER

Brooks, Pierce, McLendon, Humphrey & Leonard, LLP recently sponsored the **2006 Fast 50 Awards** recognizing the fastest-growing privately held companies in the Triad region of North Carolina.

We are proud to welcome the following new Associates to our firm:

Jennifer Noble - Jennifer is a graduate of Northwestern University School of Law in Chicago (J.D., *cum laude*, 2001) and was Managing Editor of *The Journal of Criminal Law and Criminology*, 2000-01.

David Neal - David is a graduate of the University of North Carolina School of Law (J.D., 2001) where he was inducted into the Order of the Coif and the Davis Society.

Sarah A. L. Phillips - Sarah is a graduate of the University of North Carolina School of Law (J.D., with Highest Honors, 2006) where she served as Editor of the *North Carolina Law Review*, 2005-06.

Phillip J. Long - Phillip is a graduate of the Wake Forest University School of Law (J.D., *magna cum laude*, 2005) where he served as Executive Editor of the *Wake Forest Law Review*, 2004-05, and was inducted into the Order of the Coif.

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If you would like to schedule a checkup or discuss trademark, branding or other intellectual property matters, please contact us.

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Brooks Pierce's Intellectual Property practice includes an extensive intellectual property component. We litigate patents, trademarks, copyrights, trade secrets, and other similar matters. We provide corporate legal advice concerning such matters as well as regarding name and brand selection, the protectability and registrability of trademarks, technology licenses and transactions, and internet activities. Our attorneys handle numerous trademark and copyright matters, including prosecuting applications, maintaining registrations, policing rights, and providing representation in various disputes.

Our Technology Law practice includes representation of information and biotechnology companies, Internet service providers, website content providers, hardware and software manufacturers, computer service companies, broadband distribution companies, and venture capital firms. Our firm is a member of, and our attorneys are active leaders in, the North Carolina Electronics and Information Technologies Association (NCEITA), which is the state's trade association for the information technology industry.