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AUTOPAINT

Discussion Leader's Guide



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Marc Banik

Professor, Département de management et technologie
University of Quebec at Montreal

Nick Bontis

Associate Professor, DeGroot School of Business
McMaster University

Eric Brown

Professor, Biochemistry and Biomedical Sciences
McMaster University

Tom Corr

Associate Vice President, Commercialization,
Office of Research
University of Waterloo

Scott Inwood

Director, IP Management Group, Office of Research
University of Waterloo

Cheryl Jensen

Vice President, Technology, Apprenticeship and
Corporate Training
Mohawk College

David Jones

Assistant Professor, Electrical and Computer
Engineering
McMaster University

Rafik Loutfy

Professor, Chemical Engineering
McMaster University

Christopher J. McKenna

Dean, College of Management and Economics
University of Guelph

Marcel Mongeon

Project Manager
Mongeon Consulting Inc.

Elsie Quaite-Randall

Executive Director, Industry Liaison Office
McMaster University

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AutoPaint

Don't assume you have all the rights

A. CASE STUDY SUMMARY

A Canadian art dealer purchases a machine that can automatically paint canvases to appear as if they were painted by humans. The name of the machine is AutoPaint. The sales contract for the AutoPaint machine prohibits production of paintings for resale. It states that such use constitutes an infringement of the patent owner's rights. The Canadian art dealer uses the AutoPaint machine to reproduce paintings for resale and registers a domain name for a website — autopaint.ca — to attract business. He receives a cease and desist letter from the seller alleging infringing use of both the domain name and the AutoPaint machine. The Canadian art dealer is concerned because he plans to expand his business to the US market and seeks legal advice.

B. LEARNING OBJECTIVES

At the end of the case study exercise, the students will be able to:

- explain the difference between patents, trade-marks and domain names;
- apply their understanding of the different types of intellectual property (IP) to the facts of the case, understanding that different types of IP may cover different aspects of the same invention;
- explain who, if anyone, owns the IP associated with the AutoPaint machine and in which country;
- explain and analyze the importance of addressing IP use and ownership issues in business contracts, including contracts for sale; and
- assess whether Frank has infringed any IP rights held by Charlie through his activities in Canada, and assess whether infringement is likely to occur as Frank expands his business to the United States.



NOTE: The facts described in this teaching case are fictional and not based on any true case. Although the principles relating to patents and trade-marks are correct, references to particular IP protection applications or registrations, are purely fictitious. The only actual name used in the case is the domain name autopaint.com, which is an auto paints supplier in the United States and to which no connection is intended.



C. CASE PRESENTATION GUIDELINES

The purpose of this case study is to introduce students to the basics of IP protection and the importance of analyzing “freedom to operate” in a business context. The same facts may be used for other issues, such as drafting business plans, asset evaluation, manufacturing scale-up, etc. These issues are beyond the scope of this case presentation guide, but may be developed by instructors with a greater business focus. Instructors should feel free to add questions or to expand on the discussion to represent specific areas of interest or expertise.

In the week before the case is to be discussed, students will receive a copy of the case and discussion questions. They will also be directed to the Canadian Intellectual Property Office (CIPO) website to review the presentation *Introduction to Intellectual Property* at www.cipo.ic.gc.ca/introip. The case provides students with other useful resources such as the IP PANORAMA¹ modules (www.ippanorama.com).

This can be done any time in the week prior to the case discussion, but it is suggested that the students start their case preparation with the presentation. Students should be encouraged to discuss the case with one another.

Over the following week, the case can be presented by yourself or a guest lecturer. CIPO has a pool of trained discussion leaders that are available upon request. The discussion leader will be responsible for presenting the case, providing background information as necessary (a brief background lecture on key issues may be helpful), leading the discussion, asking for answers to the prepared questions, drawing out discussion from the students, answering other questions as they may arise, and generally managing the presentation discussion process.

A general outline of the class presentation structure is as follows:

1. Introduce the guest discussion leader (if applicable).
2. Open with a general overview of, and questions about, IP (preparing a brief lecture may be helpful).
3. Provide a brief overview of the case.
4. Ask the prepared questions and draw out the discussion.
5. Ask additional questions, as needed, to ensure students have an understanding of the case material.
6. Conclude with asking the students to complete the evaluation questionnaire.
7. Provide a summary of take-home messages for students.

When discussing the case with the students, there are a number of questions that you can ask to get the discussion started. For example:

- What are the relevant facts in this case?
- What resources did you use in preparing this case?

¹ IP PANORAMA™ is a user-friendly e-learning product on intellectual property that was jointly developed by the Korean Intellectual Property Office (KIPO), the Korea Invention Promotion Association (KIPA), and the World Intellectual Property Organization (WIPO).



- How would you define IP?
- What are the different types of protection you can seek for IP?
- Do you have any IP protection if you don't formalize it?
- Why would you seek a patent? What rights will this give you?
- Why would you register a trade-mark or a domain name? What rights will this give you?
- Where and how do you get IP protection?
- What is the timeframe you have to make an application in order to get IP protection?
- Who can you go to when you need IP advice?
- Who handles Canadian IP jurisdiction matters?

Detailed information and an outline on preparing for and leading a case discussion are available in the document *General Reference for Discussion Leaders* that can be obtained at casestudies@ic.gc.ca.

D. MAIN FACTS AND ISSUES

What are the relevant facts in this case? (5 to 15 minutes)

Frank, a Canadian art dealer in mass-market art, identifies a machine that can automatically paint canvases to appear as if they were painted by humans. The name of the machine is AutoPaint, invented and sold by Charlie.

Approximately 26 months ago, Charlie Wong, the inventor of the AutoPaint machine, had filed a Patent Cooperation Treaty (PCT) application, designating all countries around the world, including the United States and Canada.

Frank purchased an AutoPaint machine despite the following:

The AutoPaint machine is covered worldwide patents and its use, controlled by the owner of the patents. The machine can be used to produce paintings to be used by the owner of the machine but cannot be used to produce paintings for resale. Any such use is an infringement of the patent owner's rights.

Frank developed a successful business in Canada selling paintings produced by the AutoPaint machine. Two months ago, he registered the domain name autopaint.ca because the name autopaint.com had already been registered by an automobile painting company.

Yesterday, Frank received a cease and desist letter from a law firm in Chicago that Charlie had hired. Frank had not seen Charlie for two years since meeting him at the trade show, and had received no response to attempted contact. The letter reasserts the condition of purchase from the written contract for sale and alleges that Frank's business activities constitute (1) an "infringement of Charlie's rights under the patent rights that he has applied for under PCT application WO2006/674402A1, which entered the national phase in Canada and the United States." In addition, the letter states that Charlie is the owner of a registered trade-mark in the United States for the mark AutoPaint. It also alleges that the registration and use of the domain name autopaint.ca is an infringement of Charlie's rights.





Frank is concerned because he had been planning on expanding his business to the United States. Even though he had not yet sold any paintings south of the border, he had had a lot of enquiries representing potential significant business. Frank is now seeking legal advice, but in the meantime, has discovered through CIPO database searches that Charlie and his company did not hold issued patents or a registered trade-mark for AutoPaint in Canada. However, he found a pending application for a patent in the United States for the AutoPaint machine and a registered trade-mark as cited in the cease and desist letter. The registration was for services described as “automated art creation services”.

The lawyer has mentioned two further relevant issues: “exhaustion of rights” or the “first sale doctrine” for patents and the *Uniform Domain Name Dispute Resolution Policy*.

E. CASE QUESTIONS AND ANSWERS

The following are specific questions that the students have been asked to review and answer. After each question are points for consideration to help with the discussion. These questions and answers should not be viewed as limiting, and the discussion leader is free to augment or vary the discussion and include illustrative examples based on experience.

1. What could Frank have done when he bought the machine to protect against these problems? Was he correct to ignore Charlie’s condition for the sale of the AutoPaint machine?

This case is primarily about the nature of different types of IP protection, the rights these grant, and how business activities may infringe on the rights of IP holders. However, the case also addresses the issue of business negotiations and contracts for the sale of goods, which in the State of Illinois, are governed by the *Uniform Commercial Code*, Article 2.

Frank’s business activities could be limited in this case by either the IP rights of others or by contractual terms. Each will be discussed in turn here. The take-home message for students in the business context is to consult a lawyer prior to entering into a business contract or expanding business activities into areas that might infringe on the IP rights of others. Consulting a lawyer to prevent problems is far less expensive than the costs associated with litigation.

Freedom to operate and IP

First, the IP issue could be addressed through an analysis of freedom to operate under all of the different IP rights. Many businesses, such as Frank’s, get started without a consideration of whether or not there was freedom to operate, and the importance of such an analysis should be one of the key take-home messages from this case study. To help illustrate this point, you might refer to the *Network Technology Partners v Research in Motion* case at the United States Court of Appeals for the Federal Circuit where RIM’s ability to operate in the United States market was severely threatened by NTP Inc., which holds a portfolio of approximately 50 patents in the fields of wireless email and RF antenna design. NTP Inc. holds the patents but does not work the patents itself. Instead, it aggressively enforces them against other actors in wireless telecommunications. NTP does, however, license its patents and such a licence with RIM was part of the overall settlement in which RIM paid NTP \$612.5 million (US) in full and final settlement of all claims.



In considering whether or not Frank did have freedom to operate, there would be issues under both patent and trade-mark law that should be discussed. The first issue is to determine where he is doing business. The case clearly establishes that he is conducting business in Canada and likely will want to do business in the United States. Accordingly, the registrations of patents or trade-marks in both countries are relevant because IP laws are national and their enforcement is restricted to the national jurisdiction in which they are held. This is sometimes a difficult concept for students to understand because of confusion between the jurisdictional scope of IP rights and the application processes that streamline filings or registrations in multiple jurisdictions.

The specifics of the application processes and the rights granted are provided below in question 3, however, the discussion with students may lead to their presentation here.

Freedom to operate and contract

The case raises some contractual issues. Here, the take-home message is that contractual terms may limit rights of use irrespective of whether valid IP rights exist. Contractual terms may also limit “freedom to operate.”

The fundamental principle of contract law is freedom of contract. In essence, this means that parties are free to negotiate and agree to terms that privilege the interests of one party over the other, so long as the contract is not illegal. In other words, the courts rarely step in to protect a party from the result of a bad business decision. Again, strongly advise students to consult a lawyer before entering into an important business contract.

A contract is a legally enforceable agreement which, in common law jurisdictions such as Canada and the United States, generally requires the following elements: (1) the intention to create legal relations (presumed in a business context); (2) a “meeting of the minds” which means an offer of a set of terms and acceptance of those terms; and (3) an exchange of something of legal value also called consideration. In this case, there is the sale of an expensive piece of machinery, which indicates that elements 1 and 3 are met. The exchanged considerations are the promises to deliver the AutoPaint machine and to pay the asking price. Thus, the contract is formed when the promises are exchanged (the agreement is made) and the performance of the contract (the delivery of the machine and the payment) happens in the future. At that point, we would say that we have an executed contract — one where the promises are complete and no further performance is required.

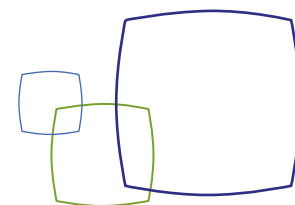
However, contracts can outlive their performance and can be raised in a lawsuit if terms which limit future conduct are breached. Common terms that limit future conduct are, for example, limited liability clauses which limit the amount of damages owed by one party to another if something is wrong with the AutoPaint machine. Another common term is called a “restrictive covenant” or a covenant “in restraint of trade,” which limits action. Such covenants are common in employment contracts or in sale of businesses, and often take the form of a covenant or promise not to compete within a specified period of time and geographic area with a former employer or with the purchaser of a business, e.g., a supermarket. In this case, it appears that Charlie has placed conditions on the sale prohibiting commercial use of his machine with the possible intention of setting up his own market for AutoPaint paintings.

All litigation is uncertain. Charlie can choose to pursue his dispute with Frank both in the law of contract and for intellectual property infringement. This case study focuses on the IP infringement suit. This is a good option for Charlie because, if successful, he would be entitled to a broader range of remedies for a greater amount (see discussion of remedies in the answer to question 3). His contractual remedy would be limited, as discussed below, because he would be hard pressed to prove damages.



The contractual problem raises the following issues, most of which cannot be resolved (as is usual for legal disputes) on the facts provided, but raise points for discussion:

1. Where and how will disputes be resolved? The contract was made in Illinois and likely covered by the law of that State. Most business contracts contain an “Arbitration Clause” that specifies how and where disputes arising under the contract will be resolved. Usually, this removes the dispute from the jurisdiction of the generalist courts to mediation and/or a specialized commercial arbitrator. The contract will also spell out how the arbitrator is to be selected, whether his/her decision will be final and binding and whether there is recourse to appeal the decision of the arbitrator to a court.
2. A particularly onerous term like the one here would generally have to be explicitly included in the contract, and evidence provided that it was brought to the attention of the party against whom it operates. One argument that Charlie could have is price — he would have charged more for commercial use of the AutoPaint machine.
3. Another type of contract that often places restrictions on use is a licence, which may limit the licensee to specific uses of a product and can restrict that use, including specifying non-commercial use. Note that while licences are often associated with IP, there need be no formal IP for there to be a valid licence. An analogous example would be the purchase of software — the download of the software comes with a set of terms contained in a licence which can restrict uses that might otherwise be allowed under copyright law. For example, the fair use exemption in copyright could arguably enable a person to install the software on both their home desktop and their laptop, but the ability to do so can be restricted by the licence terms. The software company would then be able to sue for breach of the licence agreement (contract) while they would likely not be successful suing for copyright infringement.
4. The remedies for a contractual dispute are usually monetary damages. Charlie would likely be hard pressed to prove that he had suffered any financial loss from Frank’s activities which deserved to be compensated. However, damages are determined at the end of long and costly legal battles that may be unsustainable from a financial perspective for Frank. In addition, Charlie would likely seek an injunction, an equitable remedy difficult to obtain. They are available at the court’s discretion and take the form of an order to stop activities that constitute the breach of contract or cause harm. In this case, an injunction would prevent Frank from continuing commercial use of the AutoPaint machine. The injunction could come in two forms: an interlocutory injunction to prevent the use of the AutoPaint machine until the dispute was finally settled, and then a permanent injunction as part of the overall remedy granted to Charlie (if he wins the contract dispute) to prevent Frank’s commercial use of the AutoPaint machine.
5. Injunctions are usually used if monetary damages would be inadequate. The basic test is whether there is an important issue to be tried, whether damages would be an adequate remedy, and a cost-benefit analysis weighing the respective negative impacts on the plaintiff (Charlie) and the defendant (Frank). On this test, it is unlikely that an injunction would be granted in this case.





- Note that the exhaustion doctrine discussed below does not rule out the use of contract law to impose conditions on sales, but may increase the specificity of the language required to impose a “conditional sale.” The exhaustion doctrine is a defence against patent infringement, not an argument in contract law.

2. Was Charlie overreaching the rights that his patent applications gave him? How can patent owners control the use of their patented devices in circumstances such as this?

The discussion on the remainder of the questions will leave the contractual issue aside and focus solely on the allegations of IP infringement in the cease and desist letter. As stated above, it is unclear whether Charlie could successfully limit Frank’s business activities using the AutoPaint machine, based solely on the contract.

The case represents a common challenge in many types of products — the desire of the party to continue to control sales of the product. A good example of this is the refilling of toner cartridges for laser printers. The interest of the manufacturer is to use his patents related to the toner cartridges to require users to buy them. On the other hand, users want to be able to just refill their cartridges at a much lower cost than buying a new one.

Under Canadian patent law, when someone buys a patented device, they are permitted to freely use that device to do anything that might otherwise have infringed the patent unless, at the time of purchase, they agreed to the contrary (uncertain in this case).

On the question of use of a patented device, there is the threshold issue that there may not even be a pending patent application in Canada covering the AutoPaint machine. If there is no patent, there can be no infringement of rights. This goes back to the point made in the answer above to question 1, that patent rights are jurisdiction-specific.



Assuming that there is a valid patent eventually in Canada or the United States, the question then becomes: can Charlie use his patent to limit Frank’s use of the AutoPaint machine? The issue can be known as the “first sale doctrine” or the “exhaustion of rights,” and is a defence against an infringement action.



In the United States, this was most recently considered by the Supreme Court in the case of *Quanta v LG* [2008].

In this case, the Supreme Court in a definitive 9-0 decision upheld the doctrine and, citing a decision from 1873, held: once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee. As explained by JonesDay.com:



The doctrine follows from the premise that a patent owner is entitled to a single royalty for each patented device. That is, by selling or authorizing sales of the patented device, the patent owner has bargained for and received an amount equal to the value of the patent rights that attach to the device. Thus, while the rights conveyed by a patent enable its owner to exclude others from using the patented device, once a patent owner engages in or authorizes an unrestricted sale of the patented device, such exclusionary rights are terminated with respect to that device. Put simply, the patent owner's rights are "exhausted" and cannot be asserted against any downstream purchasers, sellers, or users of the device.

In other words, if you buy a car, you are free to use the car and even sell it to a friend without being liable for patent infringement, as is your friend who buys the car. So while Charlie's patent cannot prevent Frank, who bought the AutoPaint machine, from using it as intended or selling that machine to someone else, it can prevent Frank from manufacturing more AutoPaint machines.

Canadian law is to similar effect. The rules in Canada are similar if not identical. In the Supreme Court of Canada ruling between *Eli Lilly & Co. v Novopharm Ltd.*,² the court decided that unless there is a previous arrangement in a licence agreement citing the contrary, the "...purchaser has the right to use or resell the patented article without fear of infringing on the patent."

Charlie was overreaching his rights. His patent — even if issued — could not be used to stop Frank from using the machine to do what it was supposed to do. However, the exhaustion doctrine does not rule out the use of contract law to impose conditions on sales but may increase the specificity of the language required to impose a "conditional sale." The US Supreme Court in *Quanta v LG* did not elaborate on the contractual issue, and so this remains an open question.

3. *The AutoPaint machine was protected by both patents and trade-marks. Why would someone choose to use multiple forms of intellectual property protection like this? How do those two systems work? How long do the protections last and what, exactly, do they protect?*

Different forms of IP protect different aspects of the same invention and most valuable inventions are protected by a variety of IP. Other considerations which factor into the choice of IP are the cost of seeking and maintaining, as well as the likelihood of meeting the various criteria. In addition seeking IP protection can be a complex undertaking, especially internationally. And so, thought must be given not only to the type of IP but also where to seek it. IP protection should be sought in all countries where a business plan indicates a positive potential market for the product. In this case, patents would protect the invention — the AutoPaint machine itself — and potentially also the method for making art that looks as though it is painted by hand. Trade-marks, on the other hand, could protect the name of the machine and potentially the label AutoPaint applied to art created using the machine and used as the name of the services providing mass produced artwork.

² *Eli Lilly & Co. v Novopharm Ltd.*, [1998] 2 RCS 129 at para 69.



Patents: Patents are national in scope. This means that a Canadian patent only gives patent protection within Canada, and a US patent only gives patent protection within the United States, etc. Patents give rights for their holder to exclude others (mainly competitors) from selling, using and making the invention for a set period of time — usually 20 years from the priority filing date. Because patents give rights to exclude, they are often thought of as negative rights: the rights to prevent others from undertaking certain activities. Note that the inventor does not have the positive right to sell, use or make. For example, these may be limited or prohibited by other laws or regulations.

The minimum requirements for patent protection are:

- **Subject matter:** the invention must fall into a patentable class of things.
- **Novelty:** the invention must be new.
- **Utility:** the invention must be capable of industrial application.
- **Ingenuity:** the invention must involve an inventive step or be non-obvious, depending on the jurisdiction.
- **Enablement:** the inventor must disclose enough information to allow a person skilled in the art to practice the invention.

All of the major patent regimes include these five requirements in one form or another. The subject matter is usually a threshold consideration, after which a patent application must meet the other four requirements. Countries interpret these requirements slightly differently.

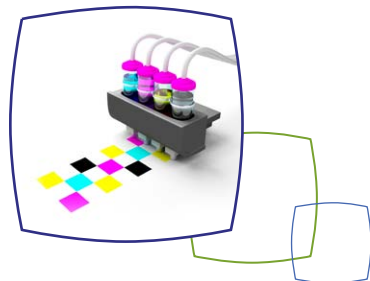
To secure a patent in a country, the patent examiner will need to be convinced that the invention meets the patent criteria:

Novelty:

New means not previously in existence. It is determined by the patent office and relies on a search of prior art. Prior art means publicly available disclosure prior to the patent application filing date. Prior art may be used to challenge validity of a patent.

Utility:

- US: Is the invention useful for described purpose?
- Canada: Does the invention work for the purpose for which it was intended? An invention could work but if it does not work the way it was designed and intended to, then it may not have the desired utility. An inventor must be in a position to establish utility at the time the patent application is filed, either through demonstration or by sound line of reasoning supported by evidence.



- A prototype is helpful for establishing that the invention works (the “utility” requirement for patenting). Section 38(1) of the *Patent Act* allows the Commissioner of Patents to request a working model.



Ingenuity (Non-obvious or Inventive Step, depending on the country):

Non-obviousness invokes the expertise of a person skilled in the art, and asks whether such a person would have considered the invention to be obvious in light of the ordinary knowledge at the time specified by the jurisdiction:

- US requires a consideration of knowledge existing when the invention was made.
- Canada requires it as of the claim date of the patent application. S. 28.3 *Patent Act*.

Inventive Step is similar to non-obviousness:

- European Patent Office: Defines inventive step as existing if an invention is non-obvious in regard to the state-of-the-art.
- Japan: There is no inventive step if the invention could have been easily made before the filing date by a person skilled in the art on the basis of pre-existing inventions.

Canadian legal decisions distinguish obviousness and novelty in the following manner: saying that an invention is obvious if a person skilled in the art sees it and says “anyone could have done that” whereas novelty invokes a reaction of “your invention, though clever, was already known” (*Beloit v Valmet*, [1986] 8 CPR 3d). In other words, when performing a patent search, if all the necessary information pertaining to the AutoPaint machine could be found within one document, then this is a case where the invention would be considered to lack novelty. If, however, all the information could be found in a combination of documents (2 or more), then it is a case where the invention may be obvious.

Getting a patent: Patenting can be expensive. While there are simplified procedures for getting patents in more than one country, the cost of the application increases with every additional country and there are maintenance fees to be paid per country to keep the patent active for its full term. Therefore, not only will Frank need to check to see whether patents have been granted in each country where he plans to sell AutoPaint paintings, he should also check their administrative status so see whether they are actually in effect (i.e., are the payments up to date?). Patent applications are filed at national or regional patent offices.

National patent offices: These act within the boundaries of a country and apply that country’s patent law. In Canada, the national patent office is the Canadian Intellectual Property Office (CIPO); in the US, the patent office is the United States Patent and Trademark Office (USPTO). Filing in a national patent office is the most cost-effective strategy for an invention which is only marketable in a small number of countries.³ This

is because an international treaty, the Paris Convention, allows for priority filings amongst signatory nations, including Canada and the United States within 12 months. This means that an inventor is given one year to file in other countries with a priority date of the filing date of the previously filed patent application (e.g., one filed at CIPO or the USPTO). This takes some of the pressure off deciding exactly what type of patent to file immediately while holding an early filing date for subsequent filings to rely upon. This is crucial in first-to-file patent systems (all countries).⁴



³ The process of applying for a patent at the Canadian Intellectual Property Office, as well as forms, may be found at www.cipo.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr00102.html.

⁴ Note that under the *America Invents Act* which was approved on September 8, 2011, and enacted in law on September 16, 2011, the US has switched to the first-to-file system. The first-to-file portion of this new law is effective as of March 2013 (www.uspto.gov/aia_implementation/aia-effective-dates.pdf).



Patent Cooperation Treaty: The case mentions that Charlie has filed a Patent Cooperation Treaty application. This is the most expensive option for filing a patent application. A PCT application reserves for an inventor the right to seek patent protection in all countries which are signatories to the PCT at the time of filing (144 countries as of September 23, 2011). It sets the priority date in all countries as the date of the original PCT filing, which can be done at the Canadian Intellectual Property Office (CIPO). PCT signatories include Canada, the United States, European countries, Japan and most other countries in the world.

The PCT is not a patent-granting system, rather, it reserves the right to file with national patent offices. There is one payment for the PCT filing, but then other payments for national patents may be deferred until the decision is made on where to patent.

When an application is filed under the PCT, Charlie will receive an international search report, which checks the international application against other applications and patents, as well as an initial opinion on the patentability of the AutoPaint machine. Charlie will then have the option of corresponding with an examiner about the possibility of amending his application, and, ultimately, he will receive an international preliminary report on patentability. This is no guarantee of a patent; local patent offices in the countries to which he subsequently applies reserve the right to conduct their own examinations, but some accept the results of the international preliminary report on patentability. This means Charlie will receive a fairly reliable indication of whether it is worthwhile to file for multiple patents in foreign countries before fees are due. He will have 30 months from the priority date (31 months in Europe) to request examination (entry into) at national or regional patent offices. In other words, within 30 months of the PCT filing, Charlie must make the decision about the countries in which to seek patent protection. He would then request national entry with costs increasing with each country chosen.

On the facts of the case, the cease and desist letter states that Charlie has sought national entry in both Canada and the United States, although Frank was only able to locate the application under examination in the United States. Note that this is not yet a granted (issued) patent. At present, Charlie has no patent rights in either Canada or the United States. If, indeed, Charlie has not yet requested national entry into Canada, his time to do so is running out. According to the case, he filed the application 26 months ago and thus has only 4 months to request national entry into Canada and any other country (5 months in Europe). However, in Canada, an applicant can receive a 12-month extension for a small fee of \$200 (*Canadian Patent Rules* 58(3)(b)). This would give Charlie 16 months instead of just 4 to enter the national phase in Canada.

Trade-mark protection: Trade-marks protect words, symbols or designs, or a combination of these items used to distinguish the goods or services of one person or company from those of another. The words or phrases used cannot be clearly descriptive or deceptively misdescriptive of the wares or services identified with the trade-mark. A name such as AutoPaint and any symbols/logos associated with the name could be used as trade-marks. Trade-marks help reduce information and transaction costs by allowing consumers to estimate the nature and quality of goods before purchase. Trade-marks may be exploited for profit; they may be sold as distinct assets or may be licensed as part of a franchising deal.

There is no absolute requirement to register a trade-mark. Trade-mark rights may be based on the legitimate use of the mark. In Canada and the United Kingdom, unregistered trade-marks are protected by the common law tort of passing off. Tort is a body of law that allows a person (including a corporation) injured in a specific way defined by law to obtain compensation from the person who caused the injury. The tort of passing off allows trader A to receive compensation from





competitor B, if competitor B causes injury to trader A by passing their goods off as if they were A's. In the United States, the statute that covers trade-marks, the *Lanham Act*, protects unregistered trade-marks, and fundamentally encodes the tort of passing off within a statute.

The elements of the tort of passing off that must be proven for trader A to win its case against competitor B are:

- that the name, mark, or logo attached to trader A has “goodwill”;
- that competitor B created confusion in the market (made a representation that is likely to deceive the public); and
- that the misrepresentation by competitor B damaged the goodwill of trader A.

Note that the acquisition of the unregistered trade-mark requires use over time and its protection is limited to the location of the reputation (may be quite localized). Unregistered trade-marks may be marked by the symbol TM.

Registered trade-marks, on the other hand, offer protection within a whole country, for example Canada, for 15 years and may be renewed indefinitely, so long as the trade-mark is being used. Registering a trade-mark also gives additional protection. For example, in the United States, after five years of unopposed use, the registered trade-mark becomes “incontestable.” This means that competitor B, in the example above, cannot directly attack trader A's mark in a trade-mark infringement suit, but must instead focus on showing a lack of a likelihood of confusion. Note that it is a common defense in any infringement action about intellectual property to attack the validity of the intellectual property (e.g., the patent is not valid because it is not new, useful, or non-obvious; or the trade-mark is not a valid mark). There is no marking requirement in Canada; in the United States, a registered trade-mark is denoted by the symbol ®.

Registering a trade-mark: Trade-marks may be registered at national IP offices, such as the Canadian Intellectual Property Office or the United States Patent and Trademark Office. To do so, Charlie would use a trade-mark agent to conduct an availability search (usually conducted by an expert search provider) to make sure that the mark can be applied for. The trade-mark agent would then write a report and, if favorable, would prepare the trade-mark application which would be filed at the national trade-mark office. Note that the Paris Convention also applies to trade-marks and allows a 6-month grace period amongst signatory nations, including Canada and the United States, in a similar manner as for patent applications.

When CIPO receives the application it does the following:

- Searches the trade-marks records to find any other trade-mark that may come into conflict with the one submitted and, if one is found, informs the applicant of it.
- Examines the application for compliance with the requirements of the *Trade-marks Act* and Regulations, and informs the applicant of requirements that are not met.
- Publishes the application in the *Trade-marks Journal*, which is issued every Wednesday.





- Allows time for opposition (challenges) to the application. Anyone may file a statement of opposition with the Registrar. After considering the evidence filed by either or both parties, the Registrar decides whether to refuse the application or reject the opposition. The parties are notified of the decision and reasons why.
- If no one files an opposition to the application, the mark is allowed. Upon payment of the registration fee and the filing of a declaration of use in the case of a proposed-use trade-mark application, the mark is registered.

The process is similar in other national trade-mark offices.

In addition, there is a similar streamlined international application process to the Patent Co-operation Treaty — the Madrid Agreement on the International Registration of Marks of 1891, and the Madrid Protocol of 1989. Under these treaties, after making a “home registration” or “home application”, an individual or company may apply to the Bureau of WIPO for an international registration (www.wipo.int/madrid/en). The Bureau passes the application on to the relevant national trade-mark offices (e.g., the United States and select European countries). If not refused in a limited amount of time, the trade-mark is considered registered. There is also a Community Trade-Mark available for the whole of the European Union at the Office for Harmonization in the Internal Market (Trade-marks and Design) in Alicante, Spain.

In the current case, Charlie has a registered trade-mark (AutoPaint) for automated art creation services. As it stands, Charlie could likely prevent Frank from marketing his art in the United States and offering those services under the name AutoPaint. Frank’s only defence would be to contest the trade-mark on the grounds that Charlie is not using it in the United States. There is evidence that the trade-mark was used at the sales show in Illinois, two years prior, but no evidence of use since.

The onus would be on Frank to prove the defence of “abandonment” in a trade-mark infringement lawsuit. Under the *Lanham Act*, a federally registered trade-mark is considered abandoned if its “use has been discontinued with intent not to resume.” Abandonment is defined as:

A mark shall be deemed to be “abandoned” when either of the following occurs:

1. When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Non use for two consecutive years shall be *prima facie* evidence of abandonment. “Use” of a mark means the *bona fide* use of that mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.
2. When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark. Purchaser motivation shall not be a test for determining abandonment under this paragraph.



Remedies: If Charlie has intellectual property rights in the US or in Canada, he may be entitled to a greater range of remedies if he is successful in his infringement lawsuit. He would be entitled to a greater monetary amount under IP law than under contract law, the main incentive for pursuing an IP infringement suit over a lawsuit for breach of contract.



Patent Remedies:

Under US law, a patent owner is entitled to the larger of either a reasonable royalty or lost profits that result from infringement of their patent. Reasonableness is determined by the standard practices of the particular industry that the invention is in. Lost profits are determined by a “but for” analysis. For example, “My client would have made X dollars in profit but for the infringement of his/her patent.” If an infringer is found to have deliberately infringed a patent (i.e., “willful” infringement), then punitive damages can be assessed up to three times the actual damages. Legal fees can also be assessed. The remedies in Canada are similar but punitive remedies are rare.

In Canada, unlike the United States, the plaintiff can also elect between recovering his damages from the defendant or alternatively being awarded the defendant’s profits arising from the infringement. This would be the best remedy for Charlie, however, while damages are a statutory remedy, accounting of profits is an equitable remedy available at the discretion of the Court.

As with most property rights, the owner may obtain an injunction to prevent ongoing infringement of his/her rights. While an injunction to stop someone from practicing the patented claims is available, it is relatively hard to get. A similar more common remedy is one to stop the importing of an infringing product into the United States, where the patent protection is. An infringer can also be enjoined from further infringement of the patent, even to the point of being forced to remove an infringing product from the market.

Trade-Mark remedies:

There are a wide range of remedies under federal law in the US and Canada. Plaintiffs such as Charlie are routinely awarded injunctions against further infringing use of the trade-mark. In trade-mark infringement suits, monetary relief may also be available, including: (1) defendant’s profits, (2) damages sustained by the plaintiff, and (3) legal costs. Damages may be trebled upon showing of bad faith in the US, but punitive damages in Canada are rare. As for patents, in Canada, the equitable remedy of accounting of profits is also available.

4. *What types of searches are possible on the CIPO and USPTO websites? How did the information help Frank decide how acute his problem was?*

National IP offices maintain databases for searching patents (applications and issued) and trade-mark registrations (e.g., CIPO, USPTO and esp@cenet for Europe). They can be searched by keyword (e.g., AutoPaint or related descriptive terms), by category (e.g., patent classification based on an international system for classifying patents into fields), by inventor (such as Charlie), by assignee (the actual owner of the patent, often a company). Note that the inventor must be a real person, but the assignee can be either a real or a legal person, such as a company (note that companies may be difficult to identify and that a corporate registry search can be done in this regard). The databases can also be searched by patent or registration number (if known) and title. Remember that the status (e.g., are maintenance payments up to date?) should also be checked.





Such searches are more difficult to do properly than they appear. Business decisions on “freedom to operate” should be made based on a search done by a professional search company. There is a list of websites provided at the end of this guide.

If computers are available, have students attempt a patent and a registered trade-mark search during the session. This has the added benefit of exposing students to real patent and registration documents so they can explore their form and content.

5. What type of intellectual property protection is associated with domain names? How does that interact with trade-marks law?

Domain names are host names that map to a particular Internet Protocol address enhancing the ease of communication and access to websites on the Internet. Domain names are useful because they provide an easy-to-remember text label to an otherwise complex set of numbers — the Internet Protocol address. Because of this, domain names often incorporate trade-marks, such as Apple.com or coca-cola.com. Indeed, enter the name of most well-known trade-marks of corporations, attaching .com into a web browser, and you will arrive at that corporation’s website.

Early on, it was recognized that a registration system would be required to regulate the use of domain names. This gave rise to an international system overseen by the Internet Corporation for Assigned Names and Numbers (www.icann.org), which delegates the assignment of specific types of domain names to accredited domain name registrars.

Historically, domain names were protected through trade-mark law. There have been a number of high profile cases about an activity known as “cybersquatting”, where enterprising individuals bought registered series of domain names of variations of corporate names protected by trade-mark. An excellent example is the United Kingdom Court of Appeal decision in *British Telecommunications v One in a Million* which found the One in a Million Company liable in the tort of passing off for registering the domain names of well-known British companies including British Telecom and Marks & Spencers and then offering these back to the companies for sale at exorbitant prices with the implied threat of misuse or sale to competitors.

To address this issue of cybersquatting, most countries have systems for registering domain names which require a legitimate interest in the name and provide recourse for complaints about the registration of a name. The potential for disputes gave rise to the *Uniform Domain Resolution Policy* (UDRP) system for resolving domain name disputes. This system gives trade-mark owner some power to prevent the use of confusingly similar domain names. In addition, the system attempts to publish bad faith domain name registrations and provides a fairly speedy arbitration process. The UDRP applies to all .biz, .com, .info, .name, .net, and .org top-level domain names and some country code top-level domain names.



6. Does a Canadian domain name like *autopaint.ca* infringe a United States trade-mark registration? What is required to constitute “infringement”?

The registry for “.ca” domain names is the Canadian Internet Registration Authority (www.cira.ca). The process outlined here for the CIRA is similar to that for other registration authorities.

To get a “.ca” domain name, the applicant must first find out whether the name is available and then go through a CIRA certified registrar to register the name and confirm the details. The registrar will use the WHOIS system maintained by all registries to determine whether a specific domain name is available. The fee for a new “.ca” domain name registration can vary. The fee is paid to the registrar, not to CIRA, and registrars set their own fees for services they provide to registrants.

To be eligible for a “.ca” domain name, the applicant must have a connection to Canada (www.cira.ca/assets/Documents/Legal/Registrants/CPR.pdf). For example an applicant must be a Canadian citizen, permanent resident or a corporation incorporated under the laws of Canada or one of its provinces. However, the owner of a trade-mark registered in Canada can register a “.ca” domain name so long as it consists of or includes the “exact word component of that registered trade-mark.”

In other words, a “.ca” designation generally means a Canadian domain name. Although those located in the United States may not necessarily think of seeking out “.ca” domains like Canadians would, they can still do so (compare www.apple.com vs. www.apple.ca for example). The “.ca” is not a guarantee that operations are only in Canada.

Whether Frank’s use of *AutoPaint.ca* infringes a registered US trade-mark depends on whether he can be considered to have used the trade-mark in the United States. Since his “.ca” website has been garnering attention and potential sales in the United States, there is a strong argument to be made that Frank has been infringing Charlie’s registered trade-mark in this country. Again, Frank’s defence would be that Charlie’s trade-mark is invalid because he has not been using it in the United States.

7. What are the rules for a dispute resolution process for a “.ca” registration? What can Frank expect?

Uniform Domain Name Dispute Resolution Policy (UDRP) is a set of rules on how to address trade-mark-based domain name disputes. These rules were developed by Internet Corporation for Assigned Names and Numbers, a not-for-profit body that oversees aspects of the Internet to ensure security, reliability and competition. The Canadian version is Canadian Internet Registration Authority (CIRA)’s *Domain Name Dispute Resolution Policy* (see www.cira.ca/legal/cdrp). Under the CDRP, for a complaint to be made, the domain name needs to be “confusingly similar.” Both the UDRP and CDRP spell out what needs to be done when a dispute over a domain name occurs (www.cira.ca/legal/cdrp).

CIRA’s *Domain Name Dispute Resolution Policy* is a mechanism through which individuals and businesses that meet CIRA’s Canadian Presence Requirements can obtain quick, out-of-court arbitrations at relatively low cost for clear-cut cases of bad faith registration of “.ca” domain names.



CIRA established this process to provide an alternative mechanism to that of the court system for those seeking to obtain the transfer or cancellation of “.ca” domain names they believe were registered in bad faith by other parties.

The CIRA *Domain Name Dispute Resolution Policy* describes the nature and the requirements of the dispute resolution process, and the types of bad faith registrations covered. It also sets out the procedures to initiate and respond to a proceeding.

To initiate a proceeding through CIRA’s dispute resolution process, you must submit your complaint to one of CIRA’s independent service providers. CIRA appoints these service providers to administer the dispute resolution proceedings.

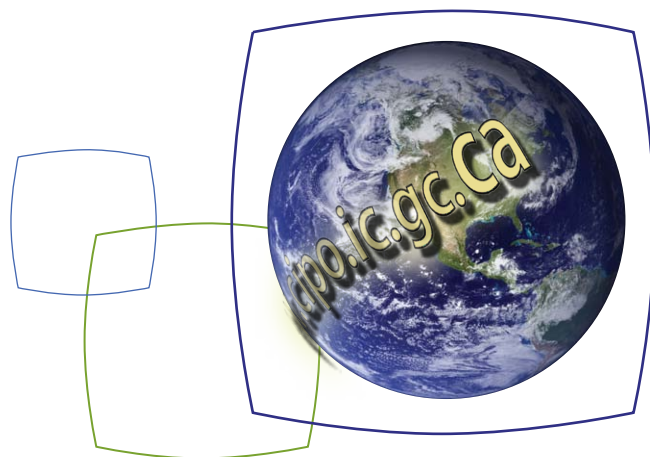
There are criteria that must be met on what is unacceptable. For example, to succeed in a UDRP or a CDRP administrative hearing, the complainant, in this case, Charlie, must establish that:

1. The domain name is identical or confusingly similar to a trade-mark or service mark in which he has rights;
2. Frank does not have any legitimate interests in the domain name; and
3. Frank registered the domain name and is using it in bad faith.

Bad faith includes acquiring the registration for disrupting, preventing, or attempting to financially benefit from a business’s domain name, and cybersquatting with no intention of use.

Note that CIRA only considers Canadian trade-marks (paragraph 3.2 of the CIRA *Domain Name Dispute Resolution Policy*). The complainant (Charlie) would have to prove ownership of a Canadian trade-mark either by registration with CIPO or by use in Canada; both of which Charlie would not be able to do. Thus, Frank should be entitled to retain ownership of the autopaint.ca domain name.

If Charlie is successful, however, “the panel will decide whether the registration should be cancelled or transferred to the complainant...”.





F. TAKE-HOME MESSAGES FOR PARTICIPANTS

Take-home messages for participants may include the following points (and may be provided as a handout to students):

- Intellectual property is a business tool — it is a means to an end, and not a goal in and of itself. A patent is not a product, and a patent does not generate sales. Patenting is an expense worth incurring if the likely return exceeds the cost.
- In determining whether to seek a patent, the following questions should be addressed:
 - a. Why am I interested in seeking a patent?
 - b. Who are the inventor(s), and have I listed all of them?
 - c. What can I patent (a product or a process or an improvement)?
 - d. Is my invention patentable (do I have patentable subject matter that meets the three patent criteria of novelty, utility and ingenuity)?
 - e. Have I adequately described my invention, or can I (i.e., is my patent fully enabled)?
 - f. When should I seek patent protection?
 - g. Where should I seek patent protection? and
 - h. How should I seek patent protection (provisional patent application, full application at a national patent office, under the Paris Convention, full application at a regional office, or under the Patent Cooperation Treaty)?
- Understand the different types of IP and how these may be combined to effectively protect your business assets (goods and services) in the most cost-effective manner. Understand the rights granted, the application processes, the subject matter covered, the relative cost, and where IP protection should be sought, based on potential markets for goods and services.
- Be aware of intellectual property and contractual limitations on the operation of your business. This is known as “freedom to operate” and should be analysed in consultation with experts in business plans, accounting, and law. It will likely require the services of a professional search company for corporate records and IP-related issues.
- Consult a lawyer prior to entering into complex business contracts. Competent upfront legal advice can help prevent costly problems and litigation down the road.





G. GENERAL REFERENCES

On Intellectual Property

The AutoPaint video

- www.cipo.ic.gc.ca/autopaint

Canadian Intellectual Property Office

- www.cipo.ic.gc.ca

US Patent and Trademark Office

- www.uspto.gov

World Intellectual Property Organization

- www.wipo.int

European Patent Office and Database

- www.epo.org/patents/searching

IP Panorama

- www.ippanorama.com

