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# AUTOPAINT Case Study



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# AutoPaint

## Don't assume you have all the rights

Frank Papadrovic has led what many would refer to as a challenging life. Since immigrating as a refugee to Canada eight years ago, he has been trying to find his “niche” in the Canadian art world. In his former country, Frank had been a successful high-end art dealer frequently selling pieces that were worth tens if not hundreds of thousands of dollars. From such sales he had earned an excellent living and was a valued member of his community.

As was the case for so many of his countrymen, war changed all of that.

Although he had never been active in any political causes, he had been associated with a particular group in his hometown that made life dangerous. Frank decided to leave quickly before trouble started. He left his successful business behind and headed for a new life in Canada.

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In Canada, Frank worked with what he knew best: the art world. However, when he began in the business, he quickly realized that there would be few opportunities for him as a high-end dealer — there were far too many people in this market segment already.

As a result, Frank worked in the area of “mass market” art. Sometimes, this part of the market was pejoratively referred to as the “starving artists” market from a tag line that had been used many years ago in television advertising for large sales of hundreds, if not thousands, of canvases at a time.

Mass market art ranged from the atrocious velvet paintings and sad clowns up to an interesting market segment of reasonably good art that was frequently used in institutional settings such as hotels and offices. Frank decided to specialize in the higher-end market.

Through his business, FP Dealers, Frank sold wholesale works to those who wanted to cover walls and other areas with reasonably well created art. For example, a single customer looking to buy works for a new 400-room hotel last week bought nearly a thousand pieces. These works are prepared in a number of different ways.

**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 intellectual property (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.



The first is by using normal lithography and silk-screening techniques that are well-known in the art world. These methods produce prints that look like they came out of a book. Another technique that was quite popular but more expensive was that of a giclée; a sprayed-ink method on a canvas which produced a more realistic-looking work on canvas or sturdier material. With the advent of ink-jet computer printers, giclées had become a large part of this market as they were relatively easy to produce.

Another method used was canvases painted by hand in a mass-production assembly line fashion. Although the end product looked hand-painted — which it was — the assembly line production led to a certain amount of sloppiness in the final product. As a result, the prices for the mass-produced oil paintings were never as high as Frank thought they could be.

At a **trade show** for wholesale art dealers, Frank met Charlie Wong, who had **devised** a machine that could automatically paint canvases in oil paints.

Two years ago, Frank's fortunes changed for the better. On a business trip to Chicago, Illinois, Frank identified a machine that would help create much higher quality oil paintings.

At a trade show for wholesale art dealers, Frank met Charlie Wong, who had devised a machine that could automatically paint canvases in oil paints.

The resulting works were of a quality as good as, if not better than, those that could be prepared in a human-operated assembly line fashion.

Charlie's machine was called AutoPaint. Charlie had begun the process for obtaining patents on the machine in many countries through the Patent Cooperation Treaty (PCT). He had initially filed the application in the United States, designating all countries around the world, including Canada. This application had been filed shortly before Frank had met Charlie, about 26 months ago.

Surprisingly — at least to Frank — those that attended the trade show two years ago were not that interested in Charlie's machine. The market had not been that receptive and Frank was the only one who placed an order for the machine. In part, this was likely due to the high cost of the machine; Frank paid over \$200 000 for the machine.





Another reason might have been one of Charlie's terms in his written contract for sale, which stated:

The AutoPaint machine is covered worldwide by patents and their use, controlled by the owner of the patent. 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 just **ignored** the statement. He was so excited by the machine that he overlooked the fine print.

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Frank had also been told by Charlie that the entire patenting process was pretty expensive and, if he wasn't able to sell a lot of machines in Canada and the United States, he would probably not pursue the process for those countries.

Frank's decision two years ago to buy the machine turned out to be a great success. He used it to produce tens of thousands of paintings. He kept the machine going night and day and his customers were very pleased with the results. They were so pleased with the product that they started asking for AutoPaint paintings by name!

Because Frank was finding that the AutoPaint name was generating business, two months ago, he registered the domain name, autopaint.ca. Because autopaint.com had already been registered by someone else for use with an automobile painting company, Frank figured that the ".ca" registration was probably good enough. He was, after all, running his business in Canada and he was getting plenty of hits on his website, autopaint.ca.

Yesterday Frank received a **letter** that threatened to **derail** the entire business.

Yesterday Frank received a letter that threatened to derail the entire business.

The letter was written by a law firm in Chicago that Charlie Wong had hired. Frank hadn't really had any contact with Charlie since the trip to Chicago two years before. Although Frank had tried to meet with

Charlie a few times since then, just to see how things were going, Frank could never seem to get an answer to the emails and voice messages that he left. It hadn't really concerned Frank; someone else in the art business about six months before had suggested that Charlie had gone out of business. In any event, Frank never heard of anyone else in Canada or the United States buying an AutoPaint machine.





The letter read as follows:

To whom it may concern:

We are patent attorneys and represent Charlie Wong Enterprises PTE Limited based in Chicago, Illinois. This company is the owner of various intellectual property rights related to the AutoPaint® line of machines.

We understand that two years ago, you bought one such machine. As part of the sales transaction, we understand that a condition of your purchase was the clause that:

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.

Despite this condition, we understand that you have used the AutoPaint® machine to produce paintings for resale to others.

Our client considers this an infringement of his 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.

Our client is also the owner of the registration of the trade-mark in the United States under number 5762430 for the mark AutoPaint. We consider your registration and use of the domain name autopaint.ca to be an infringement of our client's rights.

The purpose of this letter is to require you to cease and desist your infringing use of the machine as well as the domain name. We further require that you take immediate steps to have the autopaint.ca domain name registered in our client's name as quickly as possible.

Failure to comply with these requirements will result in such further action against you as we might advise, including commencing suit in appropriate courts. Our client will hold you responsible for all of the costs related to any such lawsuits.

DO GOVERN YOURSELF ACCORDINGLY.





Needless to say, Frank was quite upset by this letter. His business had been going very well for the last few months, in large part because of the AutoPaint business. Although he had yet to sell anything in the United States from the autopaint.ca website, he was getting a lot of hits and enquiries, and he was on the verge of making some large proposals using the machine. In particular, there was one large international hotel chain that might take as many as 50 000 paintings within the next four months.

When Frank received the letter, he wasn't really sure what to do. He had lunch with his accountant after receiving the letter but she wasn't really a lot of help. Although his accountant, Sally Tabs, was a chartered accountant, she admitted that she didn't have much experience with litigious matters, and especially not matters involving intellectual property (IP). She suggested to Frank that he call a lawyer in town that she knew worked in this type of law. However, she also told Frank that he was pretty expensive and, because he was so much in demand, quite hard to get hold of on short notice.

The **lawyer** though did give Frank some encouraging news and some ideas of **enquiries** that Frank could make.

Frank was lucky and was able to get the lawyer on the phone for a brief 15-minute conversation when he got back to the office after lunch. The lawyer said that he would be happy to work with Frank on this matter but, because he was about to start a trial out of town, he wouldn't be able to meet Frank for about a week.

The lawyer though did give Frank some encouraging news and some ideas of enquiries that Frank could make.

The first thing the lawyer suggested that Frank do was to check what trade-marks and patents Charlie had registered in Canada. Apparently Frank could do his own searches on the Canadian Intellectual Property Office's (CIPO) website. The lawyer suggested that he check on Charlie's name and the name of his company as well as the AutoPaint name and see what could be found.

Frank did so and wasn't sure if he should be happy or not when he couldn't find anything on CIPO's website. There were no issued patents or any trade-mark registrations for AutoPaint or any other name that Charlie

He found that there was a **patent application** still **pending** in the United States for the AutoPaint machine.

owned in Canada. Frank also checked the status of patents and trade-marks in the United States Patent and Trademark Office's (USPTO) website and wasn't as happy.

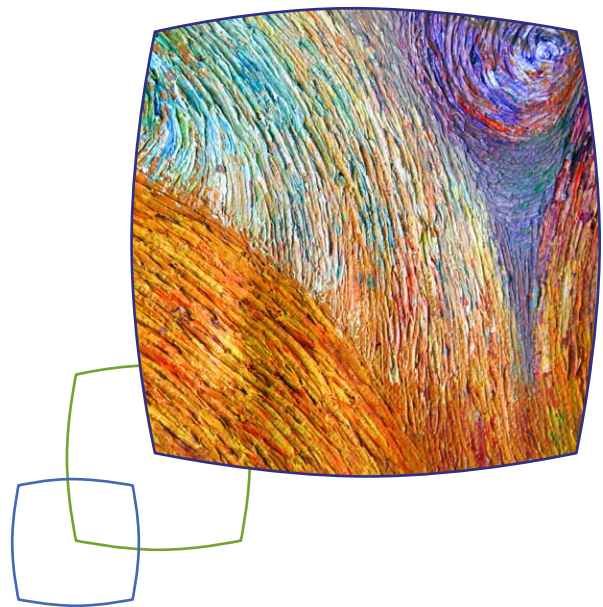
He found that there was a patent application still pending in the United States for the AutoPaint machine.

Things weren't also looking good on the trade-mark front in the USPTO. Charlie's company had, in fact, been issued the trade-mark registration cited in the cease and desist letter. The registration was for services described as "automated art creation services".

The conversation with the lawyer was also helpful because of some other things he suggested to Frank. He mentioned something called "exhaustion of rights" or the "first sale doctrine" for patents and said, because of this, Charlie wasn't able to stop Frank from using the machine as he saw fit. Frank thought that he should find out more about this.



On the autopaint.ca domain name, the lawyer wasn't as encouraging. He mentioned something about trade-mark owners being able to stop people from cybersquatting those marks through the domain name process. He also mentioned something called the *Uniform Domain Name Dispute Resolution Policy*, and that there had been a number of decisions where trade-mark owners had been able to force the transfer of domain names back to them.







## DISCUSSION QUESTIONS

1. What could Frank have done when he bought the machine to avoid these problems? Was he correct to ignore Charlie's condition for the sale of the AutoPaint machine?
2. Was Charlie overreaching the rights that his patent applications gave him? How can a patent owner control the use of his patented devices in circumstances such as this?
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?
4. How do those two systems work? How long do the protections last and what, exactly, do they protect?
5. What types of searches are possible on the CIPO and USPTO websites? How did the information help Frank decide how acute his problem was?
6. What type of intellectual property protection is associated with domain names? How does that interact with trade-marks law?
7. Does a Canadian domain name like autopaint.ca infringe a United States trade-mark registration? What is required to constitute "infringement"?
8. What are the rules for a dispute resolution process for a ".ca" registration? What can Frank expect?





## GUIDELINES FOR PREPARING TO DISCUSS THIS CASE

The objective of this case study is to answer the questions that are asked and, in the process, learn about intellectual property protection in general. All students will be expected to participate in the class discussion, and so will have conducted additional research on the topics and points raised. To get started, you can review the presentation *Introduction to Intellectual Property* at [www.cipo.ic.gc.ca/introip](http://www.cipo.ic.gc.ca/introip), and the IP Panorama<sup>1</sup> modules 2, 3 and 9 ([www.ippanorama.com](http://www.ippanorama.com)). Other useful websites are given at the end of this section.

An important aspect of using a case study is to identify the different issues that are raised. Are there other questions that you think should also be asked or other information you should have before you can answer?

When you have identified the relevant issues, assemble pertinent information. For example, in answering the question in this case about whether Charlie was overreaching his rights under the pending patent, you will need to consider what the patent covers. Also, take into account the relationship between the trade-mark and the patent, and how important it is.

Ultimately, in a case like this, you need to decide on what you believe the best course of action is, and why. Be prepared to defend your choices with relevant facts and information.

## USEFUL WEBSITES

### *The AutoPaint video*

- [www.cipo.ic.gc.ca/autopaint](http://www.cipo.ic.gc.ca/autopaint)

### *Canadian Intellectual Property Office*

- [www.cipo.ic.gc.ca](http://www.cipo.ic.gc.ca)

### *US Patent and Trademark Office*

- [www.uspto.gov](http://www.uspto.gov)

### *European Patent Office*

- [www.epo.org/searching](http://www.epo.org/searching)

### *World Intellectual Property Organization*

- [www.wipo.int](http://www.wipo.int)

### *Canadian information on patents*

- [www.jurisdiction.com](http://www.jurisdiction.com)

### *IP Panorama*

- [www.ippanorama.com](http://www.ippanorama.com)



<sup>1</sup> 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).