

# PROFESSIONAL LIABILITY BROKERS, INC.

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## A&E Newsletter

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- March 3<sup>rd</sup>, 2010  
Annual Seminar  
Cobb Galleria

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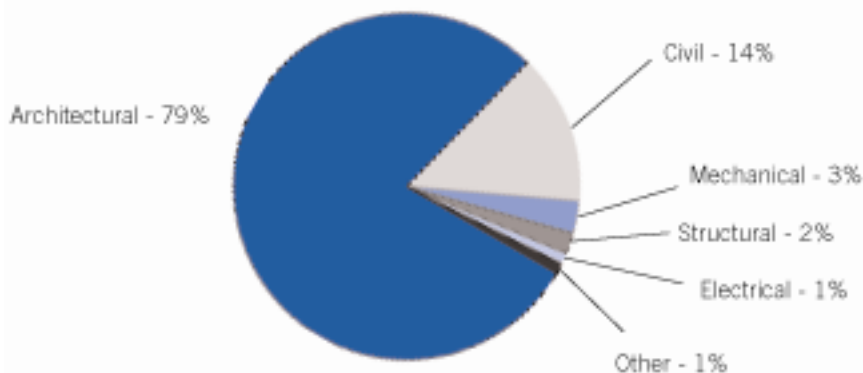
2839 Paces Ferry Road  
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## Claims Study: Protecting Yourself from Intellectual Property Claims

Intellectual property, perhaps the most valuable asset for design professionals, includes trademarks, patents, and copyrights. Not surprisingly, from 1995 through 2004, almost all intellectual property claims against design professionals in the CNA/Schinnerer program involved copyright issues. Although intellectual property claims in the CNA/Schinnerer program were minimal, design professionals should be aware of the types of claims that may arise out of issues of document ownership and control.

From 1995 through 2004, while clients were the source of most claims against CNA-insured design professionals, other design professionals initiated 40 percent of the intellectual property claims. Almost 80 percent of these claims involved architects, and residential projects represented 44 percent of all claims. The average cost of each claim was \$40,000, but the average of the top 10 percent was \$175,000.

### Intellectual Property Claims by Discipline (1995 - 2004)



Here are some examples of these types of claims:

#### Case Study #1

Architect A had been an employee of Architect B for ten years. Architect A started his own firm and was retained to design a 3,500 square-foot residence. Architect B sued Architect A for copyright infringement, alleging that Architect A's design was substantially similar to one of Architect B's copyrighted designs. Architect B also had concerns about other residences being designed by Architect A. The claim settled in mediation for \$50,000 plus an agreement that Architect B would be able to sign off on Architect A's designs before being marketed in a catalog.

## **Case Study #2**

Architect A was asked to bid on a mixed-use condo project. Architect B completed the conceptual and schematic drawings, but the client felt that Architect B's fees for construction drawings were too high. The client told Architect A that he had purchased the conceptual plans, but when Architect A checked with Architect B, Architect B refused to allow the plans to be used.

Architect A had to use the plans as far as the footprint of the building as that had already been submitted to the civil engineer for permitting. Architect A began anew on the rest of the design, with input from the client as to the number and type of units and the overall look of the building. The building did not receive a permit because of height restrictions, and the project was never built.

Architect B filed suit against Architect A and the client for copyright infringement, alleging damages of \$475,000. Although there were significant differences between the two designs, there were also significant similarities, mostly due to the client's demand for a certain look, the number of units, etc. With Architect A exposed to possible uninsured punitive damages, the claim was settled for \$100,000, which included a \$30,000 contribution from Architect A.

## **Case Study #3**

Architect A was hired to design a new condo project because the client was not satisfied with Architect B, who had previously provided phase one schematic drawings. The client told Architect A "not to change anything" since the planning board had already given approvals. The client also promised to indemnify Architect A for any problems he might face for using Architect B's schematic drawings. Architect B filed suit for copyright infringement, alleging damages of \$45,000. The claim settled for \$27,500, which included a contribution from Architect A of \$2,500. [Editor's Note: Although the client agreed to indemnify Architect A, as part of the settlement agreement, the indemnity provision may have been waived.]

## **Case Study #4**

Architect A was brought in fairly late in a project to check shop drawings and complete design changes on a senior housing development. Architect B had originally produced the plans for the developer. Architect C had taken Architect B's plans and copied and altered them for use on the project. Architect A called Architect B to obtain verbal permission to use the plans. The project had been going on for some time while Architect A attempted to obtain written permission from Architect B.

Architect B filed suit for copyright infringement, claiming he never gave permission to use the plans. There was little doubt that the planned layout was very similar to Architect B's original design. The risk to Architect A was that the other parties would state that they would not have proceeded with the project if Architect A had not told them that permission had been granted. The case settled for \$1,000,000 with a \$25,000 contribution from Architect A.

## **Case Study #5**

Architect A retained Engineer A for a new school project. Engineer A used plans prepared by Engineer B for four previously constructed schools. Engineer B filed suit against Architect A and Engineer A for copyright infringement, claiming damages of \$300,000. Architect A claimed he gave the plans to Engineer A only as a reference for matters of style and instructed Engineer A to avoid copying the plans. Engineer A did not remember receiving these instructions. CNA's expert found similarities between the designs, but it was felt that many of those were due to there being only one way to design what the school district wanted. There were also many differences and improvements over the original plans. The design team faced exposure, however, because one area left unchanged was the round gym. The claim settled for \$75,000, shared equally between Architect A and Engineer A.

## **Managing the Risks of Intellectual Property**

- Obtain proof of transfer of licenses. As can be seen in the above claims, clients often ask design professionals to provide services based on another design professional's efforts or to complete services started by someone else. The "new" design professional should require proof of a valid transfer of patents and copyrights to the client or that the client has been granted a license to use the documents. The "new" design professional should also obtain indemnity for all claims arising out of client-supplied information.

- Maintain your rights. Clients are increasingly asking design professionals to transfer intellectual property rights. Once these rights are transferred to another party, that party has the exclusive right to reproduce the original expression embodied in the documents. If design professionals agree to relinquish their intellectual property rights, they should obtain indemnity for any claims that may arise out of the client's future use of the documents.
- Read agreements carefully. Design professionals should review contracts carefully and look for language that may transfer intellectual property rights. Provisions that state that services are provided as "works for hire" automatically grant the copyright to the entity engaging the design professional's services.
- Use proper notice. Whether it is trademarked (<sup>TM</sup> or ®), patented (Patent #\_\_\_\_), or copyrighted (©), it is important to properly mark your intellectual property. Although it is no longer required that drawings be marked, the copyright notice serves as a warning that the expression has been copyrighted, thus preventing infringers from claiming that they were unaware that the work was protected. In addition, it is required to properly register the work prior to filing an infringement claim. If properly registered prior to infringement, additional remedies such as attorneys' fees and statutory damages may be available.

# GET SMART ABOUT INTELLECTUAL PROPERTY

## Introduction

Why do we have intellectual property laws? Intellectual property laws provide an incentive to create, and society benefits from those creations. Without intellectual property laws, there would be no protection for creative endeavors. For example, without patent protection, why would Alexander Graham Bell have invested his time and money to invent the telephone? Without the protection of a patent, anyone could have taken Bell's invention and made a profit. With a patent, only Bell benefited from the fruits of his labor for the period of time that the patent was in effect.

U.S. law has divided protection for intellectual property into three categories: trademarks (including service marks, which will not be covered in this publication), patents, and copyrights. The purpose of this publication is to give readers a basic understanding of these three areas of intellectual property protection. These are highly specialized areas of the law, however, and consultation with an attorney who is familiar with intellectual property is strongly recommended.

Design professionals should be aware of intellectual property claims because they are a source of risk. Although the client is often the source of claims, from 1995 through 2004, 40.3 percent of intellectual property claims were initiated by other design professionals. In those same years, of all project types, residential projects represented 44.3 percent of all claims. The average cost of each claim was \$40,000, but the average cost of the top 10 percent of claims was \$175,000.

## TRADEMARK

### What is a trademark?

A trademark consists of "words, names, symbols or devices which are used in trade with goods to indicate the source of the goods." In short, it is a mark to help consumers of goods and services identify the source of the goods or services. If distinctive and properly used, a trademark can become synonymous with a particular product or service. For example, consider the Nike swoosh. The logo is simple and not obviously representative of anything, but it is now, arguably, the most recognized symbol in sportswear.

Any mark can qualify as a trademark, except marks cannot:

- be immoral, deceptive, or scandalous;
- be an insignia of the United States or any state or local municipality;
- be a name, portrait, or signature of a living individual except by consent;
- resemble a registered mark so as to confuse, mistake, or deceive; and
- be merely descriptive or primarily geographically descriptive.

A mark should be used to help identify products and services from those of another. Caution should be observed in how a trademark is used and protected. There are examples where a company lost its trademark because the mark became so synonymous with a particular product that it lost its distinctiveness. Examples of this include "linoleum" and "escalator," which were once protected trademarks.

### What is required to obtain a trademark?

Trademarks are secured by submitting an application, filing fee, and drawing of the mark. In renewing a trademark, a picture of the mark is required. Trademarks initially last for ten years and can be renewed. The patent commissioner can cancel or refuse to renew a trademark at any time.

Similar to real property, trademarks can be transferred or licensed to another party. A valid trademark must carry the trademark symbol, <sup>TM</sup>, or the registration symbol, ®.

### What is trade dress?

Trade dress is a legal theory of recovery that takes into account the "total appearance and image of a product, including features such as size, texture, shape, color combinations, and graphics." It is not a "mark" that is registered, and elements of trade dress might be protectable under copyright law as well.

In a case involving the interior design of two restaurants (*Fuddruckers, Inc. v. Doc's B.R Others, Inc.*), the court held:

*a restaurant's décor, layout, and style of service could constitute protectable trade dress entitling plaintiff to protection against a restaurant simulating its protected ambience.*

So, not only can a mark help identify a particular company, but the interior ambience can as well.

## **PATENT**

### **What is a patent?**

A patent is the grant of a property right to the inventor of a patentable idea. The patent gives the patent holder the right to exclude others from making, using, offering for sale, or importing the invention into the United States. A patent can be granted for "any new and useful process, machine, manufacture, or composition matter or any new and useful improvements." There are three categories of patents, including utility, design, and plant patents, but this publication will focus mainly on utility patents, which is the main category, with some discussion on design patents. As noted above, a patent must be "useful," which is broadly interpreted, and must be new or novel in nature. Novel means unknown or not used by others in this country and not patented or described in a printed publication.

### **What is required to obtain a patent?**

To secure a patent, the applicant must file an application with the U.S. Patent and Trademark Office along with the required fee and supporting documents, which usually consist of a drawing of how the invention should work. Patents are granted for 20 years from when the patent was filed. The item must also be marked with the word "patent" and the patent number issued by the patent office. Finally, patents, like trademarks, can be transferred or licensed to another party.

What is a design patent?

As previously mentioned, there are three categories of patents; utility, design, and plant. Most patents are granted as a utility patent, which protects the way an article is used and works. A design patent protects the way an article looks.

Design patents are granted to "any person who has invented any new, original and ornamental design for an article of manufacture" and protects only the "appearance of the article and not its structural or utilitarian features." The appearance or design must be separate from the utilitarian function. Design in this situation has been defined as consisting "of the visual ornamental characteristics embodied in or applied to an article of manufacture."

For example, let's assume that no one ever invented the belt buckle. A belt buckle would be a useful item, and since it has never been invented, it meets the novel requirement needed to qualify for a utility patent. Let's further assume that the buckle contains ornamentation in such a way as to enhance its appearance, but remain separate from the utilitarian features. This would allow the inventor to obtain a design patent in addition to the utility patent. Often, design patents may also qualify for protection under the category of copyrighted works.

## **COPYRIGHT**

### **What is a copyright?**

The U.S. Copyright Act protects "original works of authorship fixed in any tangible medium of expression." Copyright laws give the author of an original work the exclusive right to reproduce or display that copyrighted work. Protection is not extended to procedures, processes, systems, etc. A copyright is given to an idea that has been developed enough to be "fixed in a tangible medium of expression," but not to items such as procedures and processes, which are usually matters for patent law.

### **Should I be concerned about my copyright?**

According to statistics from CNA/Schinnerer from 1995 to 2004, 95.2 percent of intellectual property claims against architects and engineers involved allegations of copyright infringement.

### **What is required to obtain a copyright?**

Registration is not required for a valid copyright, although it is prima facie evidence of a valid copyright, which shifts the burden to prove invalidity to the defendant. Registration is required before a claim of copyright infringement can be filed, however, and can factor into an award of damages and attorneys' fees. Registration can be completed by filing the appropriate documentation and fee with the U.S. Copyright Office. Affixing the copyright symbol, year of publication, and name of the copyright holder (© 2005 Victor O. Schinnerer & Company, Inc.) also serves as notice that the item is copyrighted.

### **Who owns the copyright?**

Ownership of a copyright is vested with the author of the work, except in the case of “works made for hire.” Under U.S. copyright law, “works made for hire include work prepared by an employee in the scope of employment,” but also include works “specially ordered or commissioned.” Architectural works, however, are generally not considered “works made for hire,” unless the agreement between the parties explicitly states so.

Ownership of something, however, is not the same as copyright of something. If you purchase a book, you own the book and you can sell it, burn it, or give it as a gift, but you do not have the copyright to that book. The same is true of a design professional's instruments of service. Clients often believe that since they paid the design professional and have a set of drawings in their possession, they also own the copyright. This is not true. The actual transfer of a copyright is required for the client to obtain the copyright to the design professional's instruments of service.

### **What are the categories of copyright protection?**

There are several categories of copyright protection covering a variety of ways in which creative ideas are expressed. Currently, those categories are:

- literary works;
- musical works;
- dramatic works;
- pantomimes and choreographic works;
- motion pictures and other audiovisual works;
- sound recordings;
- pictorial, graphic, and sculptural works; and
- architectural works.

In addition to architectural works as a category of protection for instruments of service, the pictorial, graphic, and sculptural works category affords protection for design professionals. Pictorial, graphic, and sculptural works or “visual works” include two and three-dimensional works of fine, graphic, and applied art. Examples of these include technical drawings, architectural plans, diagrams, and models.

In 1990, the Architectural Works Copyright Protection Act (AWCPA) became effective. Prior to passage of the AWCPA, only instruments of service, identified as “pictorial and graphic” works, were afforded protection under the U.S. Copyright Act. The AWCPA specifically added “architectural works” as a protected category of original expression. An architectural work is defined as “the design of a building as embodied in any tangible medium of expression, including a building, architectural plans or drawings.” This includes the overall form as well as the arrangement and composition of spaces and elements in the design, but does not include individual standard features.

The AWCPA, however, does not define “building.” An informational circular published by the U.S. Copyright Office, however, states that the AWCPA protects:

*structures that are habitable by humans and intended to be both permanent and stationary, such as houses and office buildings and other permanent and stationary structures designed for human occupancy, including but not limited to churches, museums, gazebos, and garden pavilions.*

Equally important are the items that the AWCPA does not protect. Among these are “structures other than buildings, such as bridges, cloverleaves, dams, walkways, tents, recreational vehicles, mobile homes, and boats.”

### **How much copying is considered copying?**

The answer is not simple. There are certain elements, however, that are required for a claim of copyright infringement to be successful. First, a plaintiff must prove ownership of a valid copyright and subsequent infringement (copying) of a protected work.

As previously noted, access to the instruments of service by the defendant is another required element of a copyright infringement claim. Once ownership of a valid copyright has been established and access has been demonstrated, the next step requires proof that copying has occurred. A key element courts look for is “substantial similarity.”

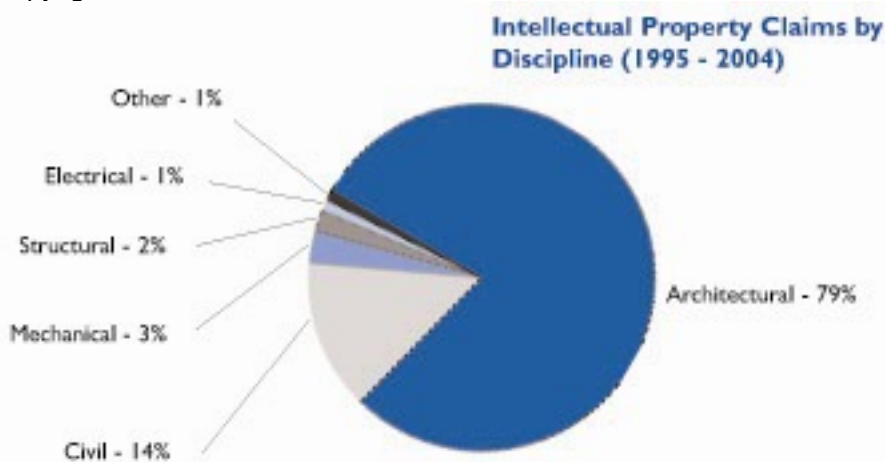
Substantial similarity consists of first identifying which aspects of the author's work are protected, and then identifying which infringing elements are "substantially similar" to the protected work. According to some courts, "substantial similarity" exists when:

*the accused work is so similar to the plaintiff's work that an ordinary reasonable person would conclude that the defendant unlawfully appropriated the plaintiff's protectable expression by taking material of substance and value.*

Substantial similarity requires not only a comparison of the two works' individual elements in isolation, but the two works' "overall look and feel," even if the individual elements do not qualify for individual copyright protection.

### **Is there anything else I need to know about copyright infringement?**

In the CNA/Schinnerer program, 44.3 percent of copyright infringement claims involved residential projects. Given the recent boom in the residential market, design professionals need to be careful that they do not violate someone else's copyrights.



### **MANAGING THE RISK OF INTELLECTUAL PROPERTY**

#### **Maintain your rights**

Clients are increasingly asking their design professionals to transfer patents and copyrights. Design professionals need to realize that once they have transferred these rights to the client or any other party, it is that party that has the exclusive right to reproduce the original expression embodied in the documents or to manufacture patentable ideas. If design professionals choose to license or transfer their rights to intellectual property, design professionals should receive indemnity for any claims that may arise from the client's future use of the documents.

#### **Obtain proof of transfer of licenses**

Design professionals are often asked to provide services based on another design professional's efforts or to complete that design professional's services. In such instances, the "new" design professional should request that the client provide proof of a valid transfer of patent and copyrights or that the client has been granted a license to use the documents for the intended purpose. Proof of patent or copyright transfer of an existing license can reduce the likelihood of claims from other design professionals for intellectual property infringement.

#### **Read agreements carefully**

Design professionals should read agreements carefully and look for language that may transfer intellectual property rights to another party. With a copyright, the creator of an original work owns the copyright in that work from the moment of creation. Provisions that state that the services provided are "works made for hire" automatically grant the copyright to the entity engaging the design professional's services.

#### **Use proper notice**

Whether it is trademarked, patented, or copyrighted, it is important to properly mark your intellectual property. Although it is no longer required for drawings to be protected, the copyright notice serves as a warning that the expression has been copyrighted, thus preventing infringers from claiming that they were unaware that the work was a protected expression. In addition to the notice being affixed to the work, registration is required before an infringement claim can be filed.

### **Gain knowledge and use available resources**

Knowledge and understanding of the issues is one of the best ways to manage risks. The websites at the right can provide you with more detailed information. In addition, Schinnerer has resources for our policyholders on our website at [www.PlanetRiskManagement.com](http://www.PlanetRiskManagement.com).

### **Management Advisories**

- “Intellectual Property Risks”
- “Document Protection”

### **Risk Management Brief**

- Document Ownership

### **Claims Study**

- Protecting Yourself from Intellectual Property Claims

### **SECURING YOUR RIGHTS**

#### **Trademark Filing—[www.uspto.gov](http://www.uspto.gov)**

An application must include the following elements before the USPTO will accept it:

- the name of the applicant;
- a name and address for correspondence;
- a clear drawing of the mark;
- a listing of the goods or services; and
- the filing fee for at least one class of goods or services.

File online at [www.uspto.gov/teas/index.html](http://www.uspto.gov/teas/index.html) or mail to:

Commissioner for Trademarks  
P.O. Box 1451  
Alexandria, VA 22313-1451

#### **Patent Filing—[www.uspto.gov](http://www.uspto.gov)**

A non-provisional application for a patent is made to the Director of the United States Patent and Trademark Office and includes:

- a written document which comprises a specification (description and claims), and an oath or declaration;
- a drawing in those cases in which a drawing is necessary; and
- filing, search, and examination fees. The fee schedule is posted at [www.uspto.gov](http://www.uspto.gov).

File online at [www.uspto.gov/ebc/efs/index.html](http://www.uspto.gov/ebc/efs/index.html) or mail to:

Commissioner for Patents  
P.O. Box 1450  
Alexandria, VA 22313-1450

#### **Copyright Registration—[www.copyright.gov](http://www.copyright.gov)**

To register a work, send the following three elements in the same envelope or package:

- a properly completed application form;
- a nonrefundable filing fee of \$30 for each application; and
- a nonreturnable deposit of the work being registered. The deposit requirements vary in particular situations. Visit [www.copyright.gov](http://www.copyright.gov) for more information.

Library of Congress  
Copyright Office

101 Independence Avenue, S.E.  
Washington, D.C. 20559-6000

If the work was first “published” in the United States, two complete copies of the work are required.

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