

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0515

Memorandum

To: Members, Committee on Small Business
From: Committee Staff
Date: May 14, 2018
Re: Hearing: "Intellectual Property 101: How Small Business Owners Can Utilize Intellectual Property Protections in Their Businesses"

On Wednesday, May 16, 2018 at 11:00 a.m., the Committee on Small Business will meet in Room 2360 of the Rayburn House Office Building for the purpose of examining how small business owners have used intellectual property protections to help their businesses and identifying issues they have faced when navigating the intellectual property process.

I. Background on Intellectual Property

Intellectual property plays a vital role in protecting creative and innovative products and ideas. There are four main types of intellectual property: patents, trademarks, copyrights, and trade secrets. Each type of intellectual property has different attributes and criteria that must be met in order to be protected.

A. Patents

A patent is a grant of a property right from the United States government that permits the owner to "exclude others from making, using, offering for sale, or selling" an invention in the United States and the right to exclude others from importing the invention into the United States for a limited amount of time.¹ The United States Patent and Trademark Office (USPTO) is responsible for issuing patents. Generally, a patent protection lasts for 20 years, starting from the date the application for the patent was filed, and is subject to maintenance fees.

There are three types of patents: utility patents, design patents, and plant patents.² A patent can only be obtained for inventions that are useful, novel, and non-obvious, and the patent is only effective within the United States. After the patent has expired, any member of the public is free to use, manufacture, or sell the invention. A study found that most patenting firms are

¹ 35 U.S.C. § 154(a)(1); U.S. PATENT & TRADEMARK OFFICE, *General Information Concerning Patents* (Oct. 2015), available at <https://www.uspto.gov/patents-getting-started/general-information-concerning-patents>.

² Utility patents are the most common type of patent and may be granted to anyone who invents or discovers any new and useful process, machine, article of manufacture, or composition of matter, or any new and useful improvement. U.S. PATENT & TRADEMARK OFFICE, *supra* note 1. Design patents are granted to anyone who invents a new, original, and ornamental design for an article of manufacture. *Id.* Plant patents may be granted to anyone who invents or discovers and asexually reproduces any distinct and new variety of plant. *Id.*

small businesses, but because they patent less frequently, the majority of patents in the United States are held by a small number of large firms.³

To obtain a patent, the inventor must file an application with the USPTO, which includes a written document comprising a description and claims, drawings when necessary, an oath or declaration, and filing, search, and examination fees. The fees can be reduced by 50 percent for qualifying small entities, and can be reduced by 75 percent for a micro entity.⁴ The application is then reviewed by a patent examiner at the USPTO. The patent examiner studies the application to ensure it meets the legal requirements and conducts a search through existing patents, publications of patent applications, foreign patent documents, and other literature to determine whether the invention is new, useful, and non-obvious. If the examiner determines that the invention is patentable, the patent is granted.

B. Trademarks

Trademarks are the most visible intellectual property protection and can help a business establish its identity in the marketplace. It is estimated that the average person in the United States encounters approximately 1,500 different trademarks every day, and around 30,000 if visiting a supermarket.⁵

A trademark is a word, name, phrase, symbol, or design, or a combination thereof, that identifies and distinguishes the source of the goods of one party from others.⁶ Similarly, a servicemark is the same as a trademark except that it identifies and distinguishes the source of a service instead of a product. A trademark generally lasts as long as it is used and is defended against infringement. Like patents, trademarks are issued by the USPTO and applications can be filed online.

A business can obtain common law rights to a trademark by using it in United States commerce, so registration is not necessarily required. However, a business can obtain important advantages by registering its trademark with the USPTO. For example, a trademark holder can bring an action in federal court if another person infringes on its trademark. A trademark registration is valid for 10 years and may be renewed in 10-year periods as long as the trademark is used in interstate commerce.

³ U.S. PATENT & TRADEMARK OFFICE, INTELLECTUAL PROPERTY AND THE U.S. ECONOMY: 2016 UPDATE 4 (2016), available at <https://www.uspto.gov/sites/default/files/documents/IPandtheUSEconomySept2016.pdf> [hereinafter 2016 UPDATE].

⁴ 35 U.S.C. § 41(h)(1); U.S. PATENT & TRADEMARK OFFICE, *supra* note 1. See 37 C.F.R. § 1.27 & 1.29 (2017) (explaining the definition of small entities and micro entity status). For a list of the current fee schedule for patents and trademarks at the USPTO, see U.S. PATENT & TRADEMARK OFFICE, USPTO FEE SCHEDULE, available at https://www.uspto.gov/sites/default/files/documents/USPTO%20fee%20schedule_current.pdf (last revised Apr. 1, 2018).

⁵ DEBORAH E. BOUCHOUX, INTELLECTUAL PROPERTY: THE LAW OF TRADEMARKS, COPYRIGHTS, PATENTS, AND TRADE SECRETS 6 (Cengage Learning ed., 5th ed. 2018).

⁶ 15 U.S.C. § 1127; U.S. PATENT & TRADEMARK OFFICE, *supra* note 1.

C. Copyright

Copyright is a protection for the authors of “original works authorship” from the time the works are created in a fixed form.⁷ Copyrights can be granted for many types of work, including literary, dramatic, musical, artistic work, as well as books, songs, plays, jewelry, movies, sculptures, paintings, and choreographic works. Computer software is also protectable by copyright. Business materials such as marketing materials and advertising copy can be protected by copyright. Certain works such as titles, names, short phrases, ideas, methods, and processes are not protected by copyright.

A copyright protection can be obtained from the United States Copyright Office, and registration generally consists of a small filing fee. Generally, copyrighted works are automatically protected from the moment of their creation for the life of the author, plus 70 years after the author’s death. Similar to trademarks, a person does not have to register a work to be protected by copyright. However, registering a work provides important advantages. For example, a copyright allows the author to establish a public record of a copyright claim, which can be used to bring an infringement suit in federal court.

A copyright owner has the right to reproduce the work, prepare derivative works based on the original work (for example, a sequel to a book or movie), distribute copies of the work, and perform and display the work. However, some uses of copyrighted works can be considered “fair use” and would not infringe on the copyright, such as using an insignificant portion of the work for noncommercial purposes or producing a parody of the work.

D. Trade Secrets

A trade secret consists of any information that derives economic value from not being known to the public and that is subject to reasonable efforts to maintain its secrecy.⁸ This can include marketing plans, financial projections, secret recipes, or other methods of conducting a business. Trade secrets are protectable as long as the information is a secret, has commercial value, and reasonable steps are taken to protect the information. There is no registration system for trade secrets, and there are no formalities to obtain rights to a trade secret. Businesses often use nondisclosure agreements to maintain the confidentiality of trade secrets.

II. The Role of Intellectual Property for Small Businesses

Entrepreneurs and small business owners have generated more than 63 percent of new jobs over the last two decades, and small businesses represent about 96 percent of employer firms in high-patenting manufacturing industries.⁹ Unfortunately, many small business owners are not aware that they should protect their innovative products and ideas through intellectual property protections. Those small business owners that are aware of intellectual property rights do not always know how to navigate the intellectual property process, and it can be very expensive.

⁷ 17 U.S.C. § 102; U.S. PATENT & TRADEMARK OFFICE, *supra* note 1.

⁸ DEBORAH E. BOUCHOUX, *supra* note 5, at 7.

⁹ U.S. SMALL BUS. ADMIN. OFFICE OF ADVOCACY, FREQUENTLY ASKED QUESTIONS 1, 4 (June 2016), available at https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2016_WEB.pdf.

A. *Small Business Awareness of Intellectual Property Protections*

Small businesses can be at a disadvantage compared to large businesses because they do not always have the knowledge or resources to prevent the theft of their ideas and products. A study by the USPTO found that only 15 percent of small businesses that conduct business overseas know that they need to file for intellectual property protections abroad.¹⁰

In 2012, the Small Business Administration (SBA) and USPTO released a joint report on international patent protection for small businesses.¹¹ The report found that many small businesses may benefit from extending patent rights outside the United States, but few were aware of the necessity or the mechanisms available to accurately and effectively pursue an international patent. The report determined that the USPTO and the SBA are well positioned to build upon several successful current intellectual property education and training programs in order to reach more small businesses.

B. *Navigating the Intellectual Property Process*

The idea of navigating the intellectual property process can be daunting to many small business owners. Additionally, small business owners may not always know which intellectual property protection they should be obtaining, as many products or ideas can qualify for multiple types of intellectual property protections. Additionally, conducting research to determine which intellectual property protections to obtain and filing for those protections can take a significant amount of time for a small business owner who is not familiar with the process.

C. *Cost of Intellectual Property Theft*

The theft of intellectual property can be financially devastating for a small business owner. According to the Federal Bureau of Investigation, intellectual property theft costs billions of dollars every year to American businesses.¹² Thieves also specifically target small business owners and startups because of their limited financial ability and often the business owner cannot afford to file lawsuits against them. Additionally, hiring an attorney to help a small business navigate the intellectual property system can be very expensive.

However, intellectual property can play an important role in helping a small business grow. For example, a 2015 study found that, on average, intellectual property right-holding firms earn 20 percent more in revenue per employee and pay, on average, 20 percent more in wages.¹³ The difference is even more significant for small businesses, as they earn 32 percent more in revenue compared to their counterparts who have no intellectual property protections.¹⁴

¹⁰ INT'L TRADE ADMIN., *Why Should Small Businesses Protect Their Intellectual Property?*, STOPFAKES.GOV, <https://www.stopfakes.gov/article?id=Why-Should-Small-Businesses-Protect-Their-Intellectual-Property> (last published July 26, 2016).

¹¹ See U.S. PATENT & TRADEMARK OFF. & U.S. SMALL BUSINESS ADMIN., INTERNATIONAL PATENT PROTECTION FOR SMALL BUSINESSES (Jan. 2012), available at https://www.uspto.gov/sites/default/files/aia_implementation/20120113-ipprr_report.pdf.

¹² FED. BUREAU OF INVESTIGATION, *Intellectual Property Theft/Piracy*, <https://www.fbi.gov/investigate/white-collar-crime/piracy-ip-theft> (last visited May 11, 2018).

¹³ 2016 UPDATE, *supra* note 3, at 4.

¹⁴ *Id.*

III. Conclusion

Intellectual property can play a vital role in helping a small business grow and protect their innovative and creative ideas and products. However, small business owners do not always have the tools they need to successfully navigate these systems or determine which intellectual property rights they may be entitled to. This hearing will further explore how intellectual property can help small businesses and how to better prepare them for navigating the intellectual property system.