

# INTELLECTUAL PROPERTY: COMMON MISTAKES MADE BY CASINOS

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Intellectual property, including patents, trademarks and copyrights, plays an important role in the casino industry. Most casinos own trademarks, such as the names of the casinos and the venues located in the casinos, players' club names and taglines. Most casinos own works protected by copyright, including their websites, advertising and architecture. Some casinos also invent games or methods of doing business that may be patentable. All casinos use intellectual property developed and, in some cases, owned by third parties, including advertising, music, proprietary games, software, artwork, names and images of living persons, and design elements of the property from lighting fixtures to faucets. Yet casinos often fail to protect their intellectual property and fail to obtain the necessary rights to use intellectual property owned by others. The consequences of this can range from the loss of intellectual property rights that casinos develop to lawsuits for damages and injunctive relief for intellectual property that the casinos fail to clear. This article discusses the most common mistakes that casinos make regarding intellectual property and how to proactively avoid them.

## Failure to Clear Rights

Failing to clear rights is the most common and sometimes the most costly mistake that casinos make with regard to intellectual property. If the casino names a venue (such as a nightclub or restaurant), adopts a new tagline for advertising, or adopts a name for a new slot tournament, the casino should conduct a trademark search to ensure that no third party already owns the same or similar trademark for the same or similar services. Trademark searches are relatively inexpensive; trademark litigation is not. The casino can potentially avoid spending hundreds of thousands of dollars on trademark litigation by routinely spending a few thousand dollars to clear trademarks before adopting and using them. Of course, the challenge is to make sure that casino marketing and others involved in adopting new marks are aware of the need to conduct trademark searches.

Casinos also frequently fail to clear intellectual property rights during construction and renovation projects. Many fixtures, such as lighting and faucets, are protected by design patents. Other design elements, such as sculptural works, artwork, wallpaper, carpeting and fabrics, are protected under copyright law. Casinos should educate their design teams about intellectual property issues, including avoiding using intellectual property owned by third parties as

"specs" without obtaining permission, and use contractual provisions requiring vendors to indemnify and defend the casino from infringement claims.

Casinos should also be vigilant about ensuring that outside advertising and marketing firms clear rights for any intellectual property that they use in campaigns for the casinos. For example, if an advertising agency hires a photographer to take photos at a casino nightclub and then uses the images in an advertisement for the nightclub, the agency is subjecting itself and the casino to liability for violation of the rights of publicity of the persons depicted in the advertisement. Thus, in addition to ensuring that the advertising agency will indemnify and defend the casino against claims, the casino should ensure that its advertising agency has policies and procedures for clearing intellectual property that it uses in creating ads for the casino.

## Failure to Investigate Accusations

Intellectual property owners have shown an increasing eagerness to enforce their intellectual property rights. The first encounter that management is likely to have with a third party that is asserting intellectual property rights is the receipt of a letter from the third party or its attorneys claiming that the casino is infringing a trademark, patent, copyright or some other form of intellectual property owned by the third party. In some cases, ignoring infringement accusations may lead to liability beyond payment of compensatory damages if the infringement action is successful. For patent infringement, for example, the casino may be held to be a "willful" infringer, possibly leading to a multiplying of damages (up to treble damages) and an award of attorneys' fees to the successful patent owner if the court deems the case to be an "exceptional case."

Casino management should promptly inform in-house counsel or outside attorneys of infringement allegations for evaluation. This can help the casino avoid liability for willful infringement and limit the damages that may arise from infringing conduct. Moreover, the casino may be able to settle a dispute and avoid a lawsuit by promptly addressing accusations of infringement.

## Ignorance of the On-Sale Bar

Many casinos develop patentable inventions, including proprietary games, software, player loyalty programs, casino signage systems and various methods of doing business. Casinos often make

the mistake of failing to seek patent protection in a timely manner. In the United States, an inventor has a one-year grace period from the time an invention is publically disclosed or economically exploited to the time of filing a patent application for the invention. Thus, if a casino publicly discloses an invention and fails to file a patent application within one year, it forever loses the opportunity to obtain patent protection for that invention. In foreign jurisdictions, there is no grace period. A simple rule of thumb is that if there is an intention to seek protection in foreign jurisdictions in addition to the United States, a patent application must be on file in the United States prior to the time an invention is publically disclosed or economically exploited. Thus, if the casino believes it has a patentable invention, it should engage patent counsel as early as possible to explore the preparation and filing of a patent application.

### Failure to Adopt Clear Policies

Many casinos fail to adopt clear policies regarding ownership of their employees' inventions. This is particularly true for employees who may develop proprietary games, such as pit bosses and dealers. In the United States, an invention is owned by the inventor unless it is assigned in writing to another person or entity. In most states, employees who are likely to invent as a part of their employment duties should execute a written agreement to assign inventions created on the job to the employer. In the absence of such an agreement, title to the invention remains in the employee. Nevada is currently an exception. By statute in Nevada, any invention conceived and developed by an employee in Nevada in the normal course of his or her employment is owned by the employer. In some cases, by the time management becomes aware of the potential value of the employee's development, the invention has already been conceived. At that point, there may be no obligation on the part of the employee to assign it to the company. In the extreme, the employee may have left the employ of the company by the time the value is perceived, a situation in which it is even less likely that an assignment to the company may be obtained.

Many employers have invention policies that provide incentives in the form of cash, stock or other perks for employee invention disclosures. In any event, a written employee agreement that provides for invention assignment is an inexpensive way to avoid this problem.

With respect to works that are protectable by copyright, if a casino employee creates the work within the scope of his or her employment, then the work may be considered a "work made for hire" and the employer would own the copyrights in the work, absent an agreement to the contrary. The determination of whether a particular person is an employee as opposed to an independent contractor turns on the law of agency and requires consideration of several factors. Thus, it is not always clear whether a person is an employee or an independent contractor for purposes of copyright law. Accordingly, employees should have binding contractual provisions that govern ownership of copyrights created by employees and independent contractors.

### Failure to Protect and Police

Intellectual property is a valuable asset that casinos should protect much like they protect their physical assets. Yet many casinos fail to recognize these assets and so fail to protect them or fail to enforce their rights to them.

Casinos that fail to obtain patent protection for their inventions are potentially losing fees that they may be able to generate from licensing their inventions. They may also be losing a competitive advantage by not excluding their competitors from using those inventions.

Casinos that fail to protect their trademarks may lose the ability to do so and ultimately lose the value of their brands. Failing to protect trademarks may also harm the casino's goodwill and reputation, and confuse customers, if the casino permits third parties to adopt and use the same or similar marks for the same or similar services. Some casinos might register their mark in their home state and ignore federal registrations or registration in other countries, which can limit or hamper the ability of the casinos to expand and potentially to advertise in other markets.

Casinos that fail to register their copyrights lose the ability to recover attorneys' fees from an infringer and the ability to elect statutory damages, in lieu of actual damages, of up to \$150,000 for willful infringement. Although copyright protection is not dependant on registration, copyright registration fees are low and registration is a prerequisite of filing a copyright infringement action. Thus, casinos should at least register their most important works, such as logos, the architectural design of their property, key print advertisements, proprietary software and other works important to their business.

### Final Thoughts

Casinos can avoid these common mistakes, or at least reduce the risk of making such mistakes, by implementing policies and procedures relating to intellectual property and educating their managers and employees about intellectual property. The policies and procedures should be both offensive—protecting and enforcing the casino's intellectual property—and defensive—avoiding claims or liability infringement of third parties' intellectual property. An intellectual property audit can be conducted to identify the casino's intellectual property assets, determine the appropriate level of protection and enforcement, and determine whether the casino's policies and procedures are adequate. In addition, outside law firms are generally willing to conduct training sessions to educate casino managers and employees on identifying intellectual property issues, which is the first step to avoiding these common mistakes.



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