

Chapter 8

Contracts and Intellectual Property Law

Chapter Outline

1. Introduction
2. Requirements to Form a Valid Contract
3. Defenses to Contract Enforceability
4. Sales Contracts and Warranties
5. Contract Performance and Remedies
6. Electronic Contracting and Electronic Signatures
7. Contract Law and the Paralegal
8. Intellectual Property Law

Chapter Objectives

After completing this chapter, you will know:

- The requirements for forming a valid contract and the kinds of circumstances under which contracts are not enforceable.
- The remedies available to the innocent party when a contract is breached, or broken.
- The nature of an electronic signature and the legal validity of such signatures.
- The nature of intellectual property and some forms of intellectual property.
- What conduct gives rise to a copyright infringement action.

Chapter 8 Contract Law and Intellectual Property

Chapter Outline

I. INTRODUCTION

- A. The law governs virtually every transaction or activity that individuals engage in across the nation.
- B. Simple, everyday transactions are subject to specific laws that define the rights and duties of the parties involved in the transaction.

Contracting Correctly

A contract has four separate and independent requirements; consider all the facts in order to determine whether a valid contract exists.

1. Agreement
2. Consideration
3. Contractual capacity
4. Legality

Technology is changing the way contracts are entered, e.g., e-signatures and the newly enacted E-SIGN Act.

II. REQUIREMENTS TO FORM A VALID CONTRACT

- A. Contract law deals with the keeping of promises. A *promise* is an assurance that one will or will not do something in the future.
- B. To form a valid contract, four basic requirements must be met.
 - i. *Agreement* - An agreement includes an *offer* and an *acceptance*.
 - ii. *Consideration* - Any promises made by parties must be supported by legally-sufficient and bargained-for consideration. This is something of value that is received or promised to convince a person to make a deal.
 - iii. *Contractual Capacity* - Both parties entering into the contract must have the contractual capacity to do so; the law must recognize them as being competent.
 - iv. *Legality* - The contract's purpose must be to accomplish some goal that is legal and not against public policy.
- C. Agreement
 - i. A contract is an *agreement* between two or more parties. The agreement contains an offer and an acceptance.
 1. An *offer* is a promise or commitment to do or refrain from doing some specified thing in the future. An offer contains three elements:
 - a. The *offeror* must have the *intent to be bound* by the offer.

- b. The terms of the offer must be *reasonably certain*.
 - c. The offer must be *communicated*.
 - 2. A party's *acceptance* of the offer results in a legally-binding contract in which all of the other elements of a valid contract are present.
 - a. The *mirror image rule* means that the terms of the acceptance must be the same as the terms of the offer.
 - b. The acceptance must be *communicated* to the offeror.
 - c. Acceptance of the offer may be made by a medium that is *reasonable under the circumstances*.

D. Consideration

- i. *Consideration* is defined as something of value—such as money or the performance of an action not otherwise required—that is given in exchange for a promise.
- ii. Consideration can be broken down into two parts:
 - 1. Something of *legal value* must be given in exchange for the promise.
 - 2. There must be a *bargained-for* exchange.
- iii. Legal Sufficiency for Consideration
 - 1. To be *legally sufficient*, consideration for a promise must be either legally detrimental to the promise or legally beneficial to the promise.
- iv. Adequacy of Consideration
 - 1. *Adequacy of consideration* refers to the fairness of the bargain.
 - 2. In general, a court will not question the adequacy of consideration if the consideration is legally sufficient.
- v. Promissory Estoppel
 - 1. In some circumstances, contracts will be enforced even though consideration is lacking.
 - 2. Under the doctrine of *promissory estoppel*, a person who has reasonably and substantially relied on the promise of another may be able to obtain some measure of recovery.

E. Capacity

- i. For a contract to be deemed valid, the parties to the contract must have *contractual capacity*, or the legal ability to enter into a contractual relationship.
- ii. Minors usually are not legally bound by contracts. Those contracts are *voidable* (capable of being canceled or avoided).

- iii. Intoxication is a condition that affects capacity. Although this is the common-law rule, most courts today rarely permit contracts to be avoided because of a party's intoxication.
- iv. A contract made by a person adjudged mentally incompetent by a court of law is *void*—no contract exists.

F. Legality

- i. A contract to do something that is prohibited by federal or state statutory law is illegal and, as such, *void* from the outset and thus *unenforceable*.

III. DEFENSES TO CONTRACT ENFORCEABILITY

A. Even if a contract meets the four requirements for a valid contract, it may be unenforceable if the parties have not genuinely assented or if it is not in the proper form.

i. Genuineness of Assent

1. Mistake

a. Mistake of Fact. Only a mistake of fact allows a contract to be avoided. Mistakes of fact occur in two forms:

- 1) A *unilateral mistake* occurs when one party to the contract makes a mistake as to some material fact. The general rule is that a unilateral mistake does not afford the mistaken party any right to relief from the contract.
- 2) A *mutual mistake* occurs when both parties are mistaken about the same material fact. In this case, either party can cancel the contract.

b. Mistake of Value or Quality

- 1) If a mistake concerns the future market value or quality of the object of the contract, either party normally can enforce the contract.
- 2) Each party is considered to have assumed the risk that the value would change or prove to be different from what he thought.

2. Fraudulent Misrepresentation

- a. When an innocent party is fraudulently induced to enter into a contract, the contract can usually be avoided because that party has not *voluntarily* consented to its terms.
- b. Normally, the innocent party can either rescind (cancel) the contract and be restored to his original position, or

- c. The innocent party can enforce the contract and seek damages for any injuries resulting from the fraud.
 - 3. Undue Influence
 - a. *Undue influence* arises from special kinds of relationships in which one party can greatly influence another party, thus overcoming that party's free will.
 - 4. Duress
 - a. *Duress* is when one of the parties is forced into an agreement by threats, blackmail, or extortion.
- ii. The Statute of Frauds
 - 1. An otherwise valid contract may be unenforceable if it is not in the proper form. Certain types of contracts are required to be in writing through state statutes referred to as the *Statute of Frauds*.

IV. SALES CONTRACTS AND WARRANTIES

- A. *Sales Contracts*, or contracts for the sale of goods, are governed by state statutes based on Article 2 of the *Uniform Commercial Code* (UCC).
- B. The Scope of UCC Article 2
 - i. When the UCC speaks, its principles apply.
 - ii. When the UCC is silent on a particular matter, the common law of contracts applies.
- C. Warranties under the UCC
 - i. The UCC provides that a warranty of title arises in any sale of goods.
 - ii. The UCC also contains provisions on express and implied warranties as to the quality or nature of the goods being sold.
 - 1. An *express warranty* is an oral or written promise made by a seller concerning the nature of the goods being sold.
 - 2. Every merchant makes an *implied warranty of merchantability* when goods are sold; that is, the goods must be "reasonably fit for the ordinary purposes for which such goods are used."
 - 3. Goods sold by merchants may also have an *implied warranty of fitness for a particular purpose* when the buyer relied on the seller's skill or judgment in selecting suitable goods.

V. CONTRACT PERFORMANCE AND REMEDIES

- A. Contract Performance

- i. Conditions expressly stated in a contract must be fully satisfied for *complete performance* to take place.
- ii. A party who in good faith performs substantially all of the terms of a contract can usually enforce the contract against the other party under the doctrine of *substantial performance*.
- iii. When performance of a contract has become impossible, the law excuses parties from their contractual performance duties under *impossibility of performance*.
- iv. Under the doctrine of *commercial impracticability*, courts may excuse parties from their performance obligations when the performance is much more difficult or expensive than contemplated at the time the contract was formed.

B. Contract Remedies

- i. A *remedy* is the relief provided for an innocent party when the other party has breached the contract.
- ii. Damages
 1. A breach of contract entitles the non-breaching party to sue for damages.
 - a. *Compensatory damages* compensate the injured party only for damages actually sustained.
 - b. *Consequential damages* or *special damages* are foreseeable damages that result from a party's breach of the contract.

iii. Rescission, Restitution, and Reformation

1. *Rescission* is an action to undo, or terminate, a contract.
2. To rescind a contract, the parties must make *restitution* to each other by returning goods, property, or money previously conveyed.
3. *Reformation* takes place when the court revises a contract to reflect the true intention of the parties.

iv. Specific Performance

1. The equitable remedy of *specific performance* calls for the performance of the act promised in the contract.
2. Generally, courts refuse to grant specific performance of contracts for personal services.

C. Remedies for Breach of Sales Contracts

- i. The seller's remedies for breach include:
 1. The right to stop or withhold delivery of the goods
 2. The right to recover damages or the purchase price of the goods from the buyer.
- ii. The buyer's remedies for breach include:

1. The right to reject non-conforming goods or improperly delivered goods
2. The right to *cover* (buy goods elsewhere and recover from seller the cost of obtaining the substitute goods)
3. The right to recover damages
4. The right to obtain specific performance, if appropriate.

VI. ELECTRONIC CONTRACTING AND ELECTRONIC SIGNATURES

A. Online Offers and Acceptances

- i. An online offer should be as comprehensive as the terms in a written (paper) document.
 1. Click-On Agreements
 - a. A *click-on license* or *click-wrap agreement* exists when a buyer indicates assent to be bound by clicking on a button that says "I agree."
 - b. The courts have normally enforced click-on agreements.
 2. Shrink-Wrap Agreements
 - a. A *shrink-wrap agreement* is an agreement whose terms are expressed inside the box in which the goods are packaged.
 - b. The courts have generally enforced the terms of shrink-wrap agreements unless the buyer learned of the shrink-wrap terms *after* the parties entered into a contract.
 3. Browse-Wrap Terms
 - a. Courts may not enforce browse-wrap terms because the user is not made aware that he is entering into a contract.

B. E-Signatures

- i. In many instances, a contract cannot be enforced unless it is signed.
- ii. A significant issue in Internet transactions has to do with electronic signatures.
- iii. Digital Signatures
 1. Anyone with the appropriate software can verify that a digital signature was made with a private, encoded key.
 2. *Cybernotaries* already are available.
- iv. Signature Dynamics
 1. With *signature dynamics*, a sender's signature is captured using a stylus and an electronic digitizer pad.

2. When this type of encrypted e-signature is used, it is not necessary to have a third party verify the signature.
- v. Other E-Signature Forms
 1. *Smart Cards* are devices embedded with code and other data.
 2. The Smart Card can be inserted into computers to transfer information, including establishing a person's identity, as validly as a signature.
 3. Retina, fingerprint, and face scanning are new technical innovations for authenticating transactions.

C. State Laws Governing E-Signatures

i. The Uniform Electronic Transactions Act (UETA)

1. UETA has been adopted in more than forty states.
2. UETA states that a signature or a contract may not be denied legal effect or enforceability solely because it is in electronic form.

D. Federal Law on E-Signatures and E-Documents

- i. The E-SIGN Act provides that no contract, record, or signature may be "denied legal effect" solely because it is in electronic form.
- ii. The E-SIGN Act does not apply to all documents. Exempt items include court papers, evictions, health-insurance terminations, and wills.

VII. CONTRACT LAW AND THE PARALEGAL

- A. Regardless of area of specialty, the paralegal may be asked to handle matters that require an understanding of contract law.
- B. Paralegals may be involved in legal work that arises in relation to sales contracts and the UCC.

VIII. INTELLECTUAL PROPERTY LAW

- A. *Trademarks, service marks, copyrights, and patents* are all forms of intellectual property.
- B. A *patent* is a grant from the government that gives an inventor the exclusive right to make, use, and sell an invention for a period of twenty years from the date of filing the application for a patent.
 - i. The application for a patent is filed with the U.S. Patent and Trademark Office.
 - ii. U.S. patent law gives protection to the first person to ***invent*** a product or process, even though someone else may have been the first to file for a patent on that product or process.
 - iii. If a firm makes, uses, or sells another's patented design, product, or process with the patent owner's permission, it commits the tort of *patent infringement*.

- C. A *copyright* gives the creator of a work the right to the exclusive use of that work for a given period of time.
 - i. What Can Be Copyrighted?
 - 1. An ***idea*** cannot be copyrighted.
 - 2. What is copyrighted is the particularly way an idea is ***expressed***.
 - ii. Copyright Infringement.
 - 1. Whenever the form or expression of an idea is copied, an *infringement of copyright* occurs.
 - 2. Penalties or remedies can be imposed on those who infringe copyrights.
 - 3. An exception to liability for copyright infringement is made under the “fair use” doctrine (such as teachers copying items to distribute to students for teaching purposes).
- D. Trademarks and Related Property
 - i. A *trademark* is a distinctive mark, motto, device, or emblem that a manufacturer stamps, prints, or otherwise affixes to goods it produces so that the goods are distinguishable.
 - ii. Trademarks are registered with the U.S. Patent and Trademark Office.
 - iii. Trademark Infringement
 - 1. When a trademark is copied to a substantial degree or used in its entirety by another, the trademark has been *infringed*, and the owner can sue.
 - 2. A person need not have registered a trademark to sue, but the registration does furnish proof of the date the owner began using the trademark.
 - iv. Trademark Dilution
 - 1. A mark may be diluted by the use of an *identical* mark as well as a *similar* mark.
 - 2. Trademark dilution occurs when a trademark is used, without authorization, in a way that diminishes the distinctive quality of the mark.
- E. Trade Secrets
 - i. *Trade secrets* consist of customer lists, plans, research and development, and the like.
 - ii. What Is Protected?
 - 1. Protection of trade secrets extends to ideas and their expressions.
 - 2. There are no registration or filing requirements for trade secrets.
 - iii. Misappropriation of Trade Secrets
 - 1. One who discloses or uses another’s trade secret, without privilege to do so, is liable to the other if

- a. He discovered the secret by improper means,
or
- b. The disclosure or use constitutes a breach of
confidence.

F. Intellectual Property and the Paralegal

- i. Many paralegals work for law firms specializing in such areas as patent law or have special departments dealing with patent cases.
- ii. An increasing number of paralegals now work in corporate environments. A major concern of these companies is the protection of patents, trademarks, and copyrights.