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An Overview of Patents, Trademarks, Copyrights, and Trade Secrets

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[*Unassigned section numbers are reserved for possible use in supplementation.*]

I. INTRODUCTION

§ 5.1 Scope of Chapter

In 1980 the Patent, Trademark and Copyright Section of the State Bar of Texas changed its name to the Intellectual Property Section to more accurately reflect the area of law practiced by its members, essentially all of whom are patent attorneys. This change reflected the growing interrelationship among patent, trademark, copyright, and trade secret protection available for an individual's intellectual creations. A simple example will point out the interplay in these independent but frequently overlapping areas of the law.

> Mr. John Doe would like to set up a new corporation under the name of Light Demand Corporation to manufacture and sell a vertically actuated light dimmer switch resembling an ordinary snap switch. He wishes to identify his product with the mark LIGHT DEMAND, with or without a logo. Mr. Doe already has illustrators working on packaging for the dimmer switches. After the newly formed Light Demand Corporation has begun manufacturing and marketing the dimmer switches, you learn that the concept for the vertically actuated light dimmer switch may have originated with a prior employer of Mr. Doe. He seeks your legal assistance.

In this example, Mr. Doe would want to consider patent protection of his switch, trademark protection of LIGHT DEMAND, copyright protection on the packaging, and possible defenses to claims of violation of trade secret laws.

The remainder of this article explores the relevant considerations in advising Mr. Doe or any client in pursuing protection in any of the above areas. Claims of unfair competition often provide alternative or additional protection of intellectual property; however, such claims will receive only brief mention in this article as part of other topics.

II. PATENT PROTECTION

§ 5.5 Patentability of the Invention

Anyone who invents a "new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof" may obtain a patent on the invention.[1] Thus, even though Mr. Doe may not have invented the broad concept of vertically actuated light dimmer switches, he might nevertheless be able to claim making a new and useful improvement to them and thus obtain a patent. However, the requirements that an invention be novel[2] and nonobvious[3] must be satisfied,[4] and a patent can be refused to an applicant who did not invent the subject matter of the patent[5] or who abandons, suppresses, or conceals the invention.[6]

Generally, patents cannot be obtained on an idea, but the implementations of an idea may satisfy the statutory definition of patentable subject matter. For instance, the idea of utilizing a transmitter and receiver to make all sides of a traffic light turn red when an emergency vehicle approaches it is not patentable, but the particular apparatus might be. Similarly, an apparatus used in playing a game may be patentable, but the method per se, the actual "play of the game," would not.[7] Recent Supreme Court decisions have included certain applications of computer algorithms[8] as well as bioengineered life forms[9] as patentable subject matter, if new and useful.

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1. 35 U.S.C.A. § 101 (West 1954); *see* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 477, 94 S. Ct. 1879, 40 L. Ed. 2d 315 (1974).
2. 35 U.S.C.A. § 102 (West 1954).
3. *Id.* § 103.
4. *See* Metal Arts Co. v. Fuller Co., 389 F.2d 319, 321 (5th Cir. 1968); Borden, Inc. v. Occidental Petroleum Corp., 381 F. Supp. 1178, 1201 (S.D. Tex. 1974).
5. 35 U.S.C.A. § 102(f) (West 1954).
6. *Id.* § 102(c), (g).
7. *See ex parte* Clarke, 50 U.S.P.Q. (BNA) 525 (P.O. Bd. App. 1940); P. ROSENBERG, PATENT LAW FUNDAMENTALS, § 6.02[3] (2d ed. 1980).
8. *See, e.g.*, Diamond v. Diehr, 450 U.S. 175, 101 S. Ct. 1048, 1056–57, 67 L. Ed. 2d 155 (1981); *but see, e.g.*, Parker v. Flook, 437 U.S. 584, 590, 595, 98 S. Ct. 2522, 57 L. Ed. 2d 451 (1978); Gottschalk v. Benson, 409 U.S. 63, 71–72, 93 S. Ct. 253, 34 L. Ed. 2d 273 (1972).
9. *See* Diamond v. Chakrabarty, 447 U.S. 303, 100 S. Ct. 2204, 2208, 65 L. Ed. 2d 144 (1980).

The Patent Act requires that an invention be nonobvious:

> A patent may not be obtained . . . if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.[10]

Courts have had difficulty enunciating standards of nonobviousness, or inventiveness, but an invention must be more than merely different from the prior art.[11]

To satisfy the requirement of novelty, the applicant must be the first inventor, and the invention must not have been patented or published anywhere or in public use or on sale in this country for more than one year prior to the date of application.[12] If a patent application is not filed within the statutory period of one year from the date of first publication or public use in the United States, the invention becomes dedicated to the public.[13] Therefore, the date of first publication, sale, offer for sale, or public use must be determined.

Most foreign countries require filing a patent application prior to any publicizing of the invention.[14] Therefore, a client with an invention, especially a multinational corporation, should seek the advice of a patent attorney before publicizing the invention in order to avoid the loss of foreign patent rights.

If the statutory deadline for filing presents no problem, a patent search on similar inventions is made in the United States Patent and Trademark Office. The results should provide a fairly reliable indication of patentability and the scope of coverage that could be expected on filing and prosecuting a patent application. Moreover, a patent search is much less expensive than the application process and therefore an important initial step.

Because patent searches are normally limited to relevant classes and subclasses of United States patents, they cannot conclusively determine the novelty of an invention. Any publication anywhere in the world that shows the invention and predates the filing of the application

10. 35 U.S.C.A. § 103 (West 1954).

11. *See* Design, Inc. v. Emerson Co., 319 F. Supp. 8, 11 (S.D. Tex. 1970); Kitch, *Graham v. John Deere Co.: New Standards for Patents*, 1966 SUP. CT. REV. 293 (1967).

12. 35 U.S.C.A. § 102(a), (b) (West 1954); *see* Piet v. United States, 176 F. Supp. 576, 581 (S.D. Cal. 1959), *modified on other grounds*, 283 F.2d 693 (9th Cir. 1960).

13. *See* 35 U.S.C.A. § 102(b) (West 1954); *In re* Foster, 343 F.2d 980, 986 (C.C.P.A. 1965).

14. *See* Landis & Fanwick, *Foreign Patents*, PATENTS, COPYRIGHT, TRADEMARKS AND TRADE SECRETS FOR CORPORATE COUNSEL AND GENERAL PRACTITIONERS 331 (Practising Law Institute 1979).

by one year could be cited against the application as prior art.[15] If the publication predates the application by less than one year, patentability depends on the date of invention.[16]

The patent search also allows the client to make a practical decision as to the value of patent coverage. If, for example, a patent search shows that vertically actuated dimmer switches are old but that the particular structure of Mr. Doe's switch has not yet been patented, he could probably obtain narrow patent coverage on the structure; he could not, however, prevent others from making vertically actuated dimmer switches with different structures.

In considering the economics, a client should evaluate the marketing advantage derived from labeling and advertising a product as "patented" or "patent pending." During the pendency of a patent application, which is approximately two years from the date of initial filing, the applicant may use the words "patent applied for," "patent pending," or other words indicating that a patent application has been filed but not issued. However, during this pendency period the applicant may not sue for patent infringement. Once the patent issues, the word "patent" or the abbreviation "pat." together with the patent number should appear on the invention. Such marking can be advantageous in promoting a particular product and discouraging competitors from patent infringement. If such notations are used without a patent application or issued patent, however, a person may be fined for each unauthorized use.[17]

§ 5.6 The Patent Application

To be entitled to patent protection, a person must conceive the invention[18] and reduce it to practice.[19] The conception should be supported by signed, dated, and witnessed documentation. Reduction to practice can be accomplished by either building a working model of the invention[20] or filing a patent application in the United States Patent and Trademark Office in sufficient detail that a person with ordinary skill in the art to which the invention relates could make and practice the invention.[21]

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15. *See* 35 U.S.C.A. § 102(b) (West 1954); Pickering v. Holman 459 F.2d 403, 407 (9th Cir. 1972); Jursich v. J.I. Case Co., 350 F. Supp. 1125, 1127 (N.D. Ill. 1972), *aff'd*, 487 F.2d 1404 (7th Cir. 1973).

16. *See* 35 U.S.C.A. § 102(a), (b) (West 1954); Rooted Hair, Inc. v. Ideal Toy Corp., 329 F.2d 761, 767 (2d Cir.), *cert. denied*, 379 U.S. 831 (1964).

17. 35 U.S.C.A. § 292(a) (West 1954); *see* Ansul Co. v. Uniroyal, Inc., 306 F. Supp. 541, 565 (S.D.N.Y. 1969), *aff'd*, 448 F.2d 872 (2d Cir. 1971), *cert. denied*, 404 U.S. 1018 (1972).

18. *See* Summers v. Vogel, 332 F.2d 810, 814 (C.C.P.A. 1964).

19. *See* Hildreth v. Mastoras, 257 U.S. 27, 42 S. Ct. 20, 66 L. Ed. 112 (1921).

20. *See id.* at 30.

21. *See* General Elec. Co. v. De Forest Radio Co., 17 F.2d 90, 100 (D. Del 1927).

The latter principle is commonly referred to as a constructive reduction to practice.

There are three categories of patents: design, plant, and utility. The extremely few plant patents issued each year are granted on asexually reproduced plants.[22] Because of the limited scope of this subject matter, it will not be covered in any further detail.

A design patent covers an invention of a "new, original and ornamental design for an article of manufacture."[23] For instance, if a lamp base has an ornamental design that is new and nonobvious, it may be covered by a design patent. These constitute less than 10 percent of all patents issued.

The vast majority of patents are utility patents, which may be subclassified as either mechanical, electrical, or chemical. A utility patent application normally includes drawings, specifications, and claims.[24] Drawings are required to facilitate an understanding of the invention where possible.[25] The specifications describe the invention in a manner strictly prescribed by statute and rule.[26] "When an application which meets all requirements of the Patent Statutes and Patent Office Rules is filed in the Patent Office it is *a constructive reduction to practice of the invention* defined by its claims . . . ."[27] Thus, the claims of a patent are of paramount significance; they define the scope of the patent while specifications and drawings support the claims. Claims should be written as broadly as possible, yet still narrowly enough to distinguish any prior art. More limited claims should also be included in the patent application to ensure some protection if the broader claims are disallowed or subsequently declared invalid.

In the normal prosecution of a patent application, the patent examiner may reject some or all of the claims as being either informal (that is, not strictly complying with the statute and rules), or failing to distinguish the prior art cited by the examiner. In a typical response, the patent attorney would amend the application to overcome the informal rejections and probably narrow the scope of the claims to distinguish the prior art cited by the examiner. The attorney would then argue the patentable merits of novelty, utility, and nonobviousness of the claims as amended. Typically, one or two amendments are necessary before a patent is issued.

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22. 35 U.S.C.A. § 161 (West 1954); *see* Kim Bros. v. Hagler, 167 F. Supp 665, 667 (S.D. Cal. 1958), *aff'd*, 276 F.2d 259 (9th Cir. 1960).

23. 35 U.S.C.A. § 171 (West 1954); *see In re* Frick, 275 F.2d 741, 742–43 (C.C.P.A. 1960).

24. 35 U.S.C.A. § 111 (West 1954).

25. 35 U.S.C.A. § 113 (Supp. 1982); 37 C.F.R. §§ 1.81–.88 (1981).

26. 35 U.S.C.A. § 112 (West Supp. 1982); 37 C.F.R. §§ 1.71–.79 (1981).

27. 5 A. DELLER, WALKER ON PATENTS, § 429 at 18 (2d ed. 1972) (emphasis in the original).

If the client subsequently modifies the invention, patent protection on the improvements should be sought in one of two ways. If the first or parent patent application is still pending and the modification is closely related to the original invention, a continuation-in-part application should be filed; such an application would include subject matter from the parent application and disclose the new subject matter as well. However, if the parent application has already issued as a patent or if the improvement is distinct from the original application, a new patent application must be filed on the improvement.[28]

If the patent examiner rejects an applicant's claims twice, the applicant may appeal to the Board of Appeals in the United States Patent and Trademark Office.[29] From an adverse decision by the Board of Appeals, the applicant may further appeal either to the United States Court of Customs and Patent Appeals (CCPA)[30] or to a district court in the District of Columbia in a civil action against the Commissioner of Patents and Trademarks.[31] In choosing between these two forums, an applicant should consider that several patent attorneys with great expertise in patent matters sit on the CCPA, whereas a district court judge may rely on the expertise of the Board of Appeals. The applicant or the Commissioner may petition the United States Supreme Court to review the holding of the CCPA.[32] A district court ruling, however, would be appealed to the Court of Appeals for the District of Columbia and, if necessary, by petition to the Supreme Court.[33]

In April 1982, Congress created a new court, the United States Court of Appeals for the Federal Circuit (CAFC). The CAFC was formed by a merger of the CCPA and the U.S. Court of Claims, and it has exclusive jurisdiction over all patent appeals.[34] The CAFC will handle not only appeals from the Patent and Trademark Office, but also appeals from the United States Trade Commission and the federal district courts if the matter involves patents and otherwise meets the jurisdictional requirements defined in 28 U.S.C.A. § 1338. The new court became effective October 1, 1982.[35]

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28. *Id.* § 432.

29. 35 U.S.C.A. § 134 (West 1954); *see* Coe v. United States *ex rel.* Remington Rand, Inc., 84 F.2d 240, 242 (D.C. Cir. 1936); *but see In re* Hengehold, 440 F.2d 1395, 1402–03 (C.C.P.A. 1971).

30. 35 U.S.C.A. § 141 (West 1954); *see In re* Melott, 331 F.2d 887, 891 (C.C.P.A. 1964).

31. 35 U.S.C.A. § 145 (West 1954); *see* Ellis-Foster Co. v. Union Carbide Corp., 179 F. Supp. 177, 179 (D.N.J. 1959), *rev'd on other grounds*, 284 F.2d 917 (3d Cir. 1960), *cert. denied* 365 U.S. 813 (1961).

32. 28 U.S.C.A. § 1256 (West 1966); *see* Brenner v. Manson, 383 U.S. 519, 523, 86 S. Ct. 1033, 16 L. Ed. 2d 69 (1966).

33. *See* Hoover Co. v. Coe, 325 U.S. 79, 65 S. Ct. 955, 89 L. Ed. 1488 (1945).

34. Federal Courts Improvement Act of 1982, Pub. L. 97-164, 96 Stat. 25.

35. *Id.* § 402 at 57.

§ 5.7 Infringement Actions

After Mr. Doe has obtained a patent on his improvement in a light dimmer switch, he might discover another switch on the market that he considers infringing on his patent rights. Mr. Doe's patent has a narrow scope since it covers only the claims on his improvement; therefore, the competing light switch must be carefully examined to determine whether it infringes on Mr. Doe's claims. If the claims in Mr. Doe's patent "read on" the competitor's device, item for item, and no valid defenses for infringement exist, in a civil action for infringement Mr. Doe may obtain injunctive relief,[36] damages (possibly treble),[37] costs,[38] and in exceptional cases reasonable attorneys' fees.[39]

If in his broadest claim Mr. Doe specifically claimed that the toggle on his dimmer switch pivots about a *bolt* and if the competitor's toggle pivots instead on a *rivet*, Mr. Doe may still have a valid claim for infringement under the "doctrine of equivalents." Under this doctrine, absent literal infringement, Mr. Doe may prevail if the rivet in the competitor's switch performs "substantially the same function in substantially the same way to obtain the same result"[40] as Mr. Doe's bolt.

However, if Mr. Doe had impressed on the patent examiner the distinction of his bolt over the prior art in his efforts to obtain a patent, his competitor could prevail. For example, in his application as filed, Mr. Doe might have specifically claimed a *pivot means* (bolt, rivet, or other means of pivoting) about which the toggle on his light dimmer switch was pivoted. However, if the examiner rejected the claim in view of prior art and Mr. Doe amended and narrowed his claim to a *bolt* instead of a *pivot means*, a counter doctrine known as "file wrapper estoppel" would estop Mr. Doe from asserting the equivalence of the *rivet* and *bolt* as *pivot means*.[41] The term *file wrapper* refers to all of the patent application file maintained by the United States Patent and Trademark Office, including Mr. Doe's amendments and responses to the examiner.

A competitor may avoid direct infringement of an inventor's claims yet be guilty of "contributory infringement," that is, facilitating infringement by others.[42] "For example: where a person furnishes one part

36. 35 U.S.C.A. § 283 (West 1954).
37. *Id.* § 284.
38. *Id.*
39. *Id.* § 285. *Compare* Sid W. Richardson, Inc. v. Bryan, 197 F. Supp. 691, 692–93 (S.D. Tex. 1961) *with* Hyde Corp. v. Huffines, 303 S.W.2d 865, 869–70 (Tex. Civ. App.—Fort Worth 1957), *aff'd*, 158 Tex. 566, 314 S.W.2d 763, *cert. denied*, 358 U.S. 898 (1958).
40. *See* Graver Tank & Mfg. Co. v. Linde Air Products Co., 339 U.S. 605, 608, 70 S. Ct. 854, 94 L. Ed. 1097 (1950); Sanitary Refrigerator Co. v. Winters, 280 U.S. 30, 42 50 S. Ct. 9, 74 L. Ed. 147 (1929).
41. *See* Exhibit Supply Co. v. Ace Patents Corp., 315 U.S. 126, 62 S. Ct. 513, 86 L. Ed. 736 (1942).
42. 35 U.S.C.A. § 271(c) (West 1954); *see*

of a patented combination, intending that it shall be assembled with the other parts thereof, and that the complete combination shall be used or sold, that person is liable to an action, as infringer of the patent on the complete combination."[43] Contributory infringement is essentially an adaptation of the joint tortfeasors concept to patent infringement.

If the competing switch clearly falls outside the claims of Mr. Doe's patent, no action for infringement exists in spite of Mr. Doe's beliefs. Even in the event the competing switch does infringe on Mr. Doe's patent, the competitor may be able to assert numerous defenses against Mr. Doe's cause of action.

In almost every patent infringement case, the defendant will raise the defense of patent invalidity. Although a patent provides its owner with a legal presumption of validity, such validity can be attacked on grounds concerning patentability of the invention and on several procedural grounds as well.[44] Thus, by conducting an extensive validity search, the competitor may disclose prior art predating the filing of Mr. Doe's patent application. If the prior art were more like Mr. Doe's improvement than any references cited by the examiner during the prosecution of Mr. Doe's patent application, the prior art would reopen the issues of novelty and nonobviousness concerning Mr. Doe's invention.

When bringing an infringement action, the owner of a patent may not recover for infringements that occurred more than six years prior to the filing of suit.[45] If no notice of patent coverage was placed on the patented article, the patent owner may recover damages only for infringements occurring after actual notice was given to an infringer.[46]

In the late 1960s and early 1970s, defendants in patent infringement cases often filed counterclaims of antitrust violations. While the courts have become stricter in their requirements for allowing antitrust counterclaims, a patent owner still may be found guilty of antitrust violations on numerous grounds. For example, if a patent owner requires a licensee to purchase not only the patented product from the license owner but also supplies for the patented product not covered by the patent, the patent owner is guilty of antitrust violations. Similarly, the owner of two patents who refuses to license a person under one patent unless that person also agrees to take a license under the second patent

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Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 100 S. Ct. 2601, 2609, 65 L. Ed. 2d 696 (1980).

43. 7 A. DELLER, WALKER ON PATENTS § 515 at 181 (2d ed. 1972).

44. 35 U.S.C.A. § 282 (West 1954); *see* John Zink Co. v. National Airoil Burner Co., 613 F.2d 547, 551 (5th Cir. 1980).

45. 35 U.S.C.A. § 286 (West 1954); *see* Studiengesellschaft Kohle mbH v. Eastman Kodak Co., 616 F.2d 1315, 1325 (5th Cir.), *cert. denied*, ——— U.S. ———, 101 S. Ct. 573 (1980).

46. 35 U.S.C.A. § 287 (West 1954); *see* Bros, Inc. v. W.E. Grace Mfg., 320 F.2d 594, 599 (5th Cir. 1963).

misuses the patent rights. Courts will not enforce patent rights for an owner committing such violations.[47]

Before Mr. Doe becomes involved in patent litigation, he should be advised that it is normally very expensive. A patent infringement suit tried before a judge may easily cost more than $100,000. In cases with any substantial complexities, the cost normally exceeds this amount severalfold. The high cost of litigation may deter some clients from obtaining patent protection, but claims of patent infringement rarely proceed all the way through trial. Although a large number of patent infringement claims are made, the vast majority—probably greater than 98 percent—are settled prior to trial simply because of the costs involved in proceeding.

§ 5.8 The Role of the Patent Attorney

While applicants may file and prosecute their own cases before the Patent Office, they should obtain the assistance of a patent attorney or agent. Patent attorneys and agents are registered to practice before the Patent Office; this registration ensures that they have a technical background, that they have passed the Patent Bar Exam, and that they are "otherwise competent to advise and assist [applicants] in the presentation and prosecution of their applications before the Patent and Trademark Office."[48]

"Whoever, not being recognized to practice before the Patent and Trademark Office, holds himself out or permits himself to be held out as so recognized, or as being qualified to prepare or prosecute applications for patent, shall be fined not more than $1,000 for each offense."[49] Other questionable practices involving "invention development" or "invention brokers" may also be subject to the provisions of a Texas statute effective May 7, 1981 entitled "Regulation of Invention Development Services Act."[50] These measures are designed to protect the inventor from unqualified practitioners whose lack of expertise in the area could result in the inventor's loss of valuable patent rights.

Numerous common misconceptions concerning patents provide evidence of inventors' needs for sound legal advice on how to protect their inventions. For instance, many people believe that by mailing a letter describing their invention to themselves via certified mail and then

47. Dawson Chem. Co. v. Rohm & Haas Co., 448 U.S. 176, 100 S. Ct. 2601, 65 L. Ed. 2d 696 (1980), gives the historical development of patent misuse cases and contributory infringement cases and attempts to balance the inherently competing interests protected by the two lines of cases.

48. 37 C.F.R. § 1.341(c) (1981).

49. 35 U.S.C.A. § 33 (West Supp. 1982); *see* United States v. Blasius, 397 F.2d 203, 204 (2d Cir.), *cert. granted*, 393 U.S. 950 (1968), *cert. dismissed*, 393 U.S. 1008 (1969).

50. TEX. REV. CIV. STAT. ANN. art. 9020 (Vernon Supp. 1982–1983).

leaving the letter unopened, they have somehow protected their invention. While this letter may provide some evidence of a date of conception of the invention, the courts do not recognize it as establishing any patent rights.

Another common misconception is that filing an Invention Disclosure Document with the United States Patent and Trademark Office in some way protects an invention, yet this document only provides evidence of a date of conception of the invention. If an owner files a patent application within two years of filing the Invention Disclosure Document and requests to consolidate the two, the file wrapper will provide proof of a date of conception at least as early as the filing of the Invention Disclosure Document. However, the Invention Disclosure Document itself gives no patent protection.

Further, filing a patent application does not give any patent protection, for the application is a contingent right. Only on issuance of the patent application as a letters patent could an infringer be prevented from manufacturing, using, or selling the patented apparatus or device.

Thus, a patent attorney should be consulted to determine if an invention is patentable, to determine what patent protection may be appropriate for a client's marketing needs, and to ensure that such protection is properly acquired for the invention.

III. Copyright Protection

§ 5.15 Introduction

Patents and copyrights have the same constitutional grant of authority,[70] and federal legislation has preempted concurrent state jurisdiction over the specific rights granted under both patents and copyrights. These rights expire in a finite time, after which their subject matter becomes dedicated to the public.

Unlike patent law, however, copyright law has undergone extensive changes in the past few years. In 1976, Congress passed a new Copyright Act effective January 1, 1978. The 1976 Copyright Act (the Act) represents a series of compromises between special interest groups on several major issues. The Act significantly altered the body of law that had grown out of the prior 1909 Copyright Act, but the full impact of the revisions remains to be seen as courts interpret the ambiguous statutes in light of equally ambiguous legislative history. Because of the

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[Footnotes 51–69 are reserved for expansion.]

70. U.S. Const. art. I, § 8, cl. 8; *see* Mitchell Bros. Film Group v. Cinema Adult Theater, 604 F.2d 852, 860 (5th Cir.), *cert. denied*, 445 U.S. 917, 100 S. Ct. 1277, 63 L. Ed. 2d 601 (1979).

current state of flux within this area of law, it will receive only a brief overview.

Specifically excluded from discussion are numerous complicated provisions relating to secondary transmissions of audio and audiovisual works. An attorney should consult in detail the sections of the Act dealing with this particular area prior to advising a client.[71] These sections basically cover cable television and retransmission and recordings of television broadcasts. Also omitted from discussion are the provisions and regulation of the compulsory licensing required for sound recordings and the scope of the copyright royalty tribunal.

§ 5.16 The Nature of Copyrights

A copyright may be obtained on any original work "fixed in any tangible medium of expression, now known or later developed,"[72] but copyright protection does not "extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work."[73]

The classic example of this distinction is a copyrighted cake recipe appearing in a newspaper. The owner of the copyright may prevent others from copying the recipe, for example, including it in a cookbook or selling it individually. However, the copyright owner may not prevent anyone from baking cakes utilizing the recipe. Similarly, an author who still owns the copyright on a book may prevent others from making a "substantial copy" of the work but cannot prevent others from utilizing a similar plot for a different book.[74] Moreover, a copyright will not necessarily protect the title of the book, although theft of a book's title may be actionable under the common law principle of unfair competition.

Copyright law protects seven categories of works of authorship, which are more conveniently grouped into four registration classes: visual arts, nondramatic literary work, sound recordings, and performing arts.[75]

Visual arts include "pictorial, graphic and sculptural works," encompassing even pictorial or graphic labels and advertisements.[76] If the dimmer switch made by Mr. Doe's Light Demand Corporation has a design incorporating pictorial, graphic, or sculptural features independent of the functional aspects of the switch, that design could be copyrighted.

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71. 17 U.S.C.A. § 111 (West 1977).

72. *Id.* § 102(a); *see* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 51–52 (1976), *reprinted in* 1976 U.S. CODE & CONG. AD. NEWS 5659, 5664–65.

73. 17 U.S.C.A. § 102(b) (West 1977); *see* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 52 (1976), *reprinted in* 1976 U.S. CODE & CONG. AD. NEWS 5659, 5665.

74. *See* Ferguson v. National Broadcasting Co., 584, F.2d 111 (5th Cir. 1978).

75. 37 C.F.R. § 202.3(b)(1) (1981).

76. *Id.* § 202.3(b)(1)(iii).

Except for dramatic and certain kinds of audiovisual works, nondramatic literary works include all those written in either verbal or numerical symbols, such as fiction, nonfiction, poetry, catalogs, advertising copy, and so on.[77] Recently, computer programs have been accepted for registration as nondramatic literary works.[78]

Sound recordings result from the fixation in a tangible form of a series of musical, spoken, or other sounds.[79] An exception is the audio portion of audiovisual works, which must be considered as a whole under another category. Should Light Demand Corporation prepare a radio advertisement for its light dimmer switches, the mechanical recording of that advertisement could be copyrighted as a sound recording. Sound recording copyrights are the typical method of protecting the rights of individuals in recordings, such as phonograph records or tapes, which is obviously important in the record industry.

The last general category of copyrightable subject matter is "performing arts," which includes works prepared for performance directly before an audience or indirectly "by any device or process."[80] Examples of these works are musical works, including any accompanying words; dramatic works, including any accompanying music; pantomimes and choreographic works; and motion pictures and other audiovisual works. As in the example of Light Demand Corporation's radio advertisement, a television advertisement for the dimmer switch reduced to a tangible form such as an audiovisual cassette is copyrightable.

The Act states that a copyright owner has the exclusive rights to reproduce, prepare derivative works, distribute, perform, or display the copyrighted work, and to authorize such activities.[81] Many judicial exceptions to exclusive rights codified by the Act generally make permissible unauthorized reproduction of a limited nature for such purposes as criticism, comment, teaching, and research.[82]

For works created after January 1, 1978, the Act confers these exclusive rights to the owner for the life of the author plus fifty years.[83] In the case of joint works, the copyright endures for the life of the last surviving author plus fifty years.[84] For anonymous, pseudonymous, or made for hire works, the copyright endures for seventy-five years from the

77. *Id.* § 202.3(b)(1)(i).

78. *See* Synercom Technology, Inc. v. University Computing Co., 462 F. Supp. 1003, 1012–14 (N.D. Tex. 1978).

79. 37 C.F.R. § 202.3(b)(1)(iv) (1981); *see* Gee v. CBS, Inc., 471 F. Supp. 600, 647 (E.D. Pa.), *aff'd*, 612 F.2d 572 (3d Cir. 1979).

80. 37 C.F.R. § 202.3(b)(1)(ii) (1981).

81. 17 U.S.C.A. § 106 (West 1977); *see* Triangle Publications Inc. v. Knight-Ridder Newspapers, Inc., 445 F. Supp. 875, 877 (S.D. Fla. 1978) (right to display).

82. 17 U.S.C.A. §§ 107–118 (West 1977).

83. *Id.* § 302(a); *see* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 134–35 (1976), *reprinted in* 1976 U.S. Code Cong. & Ad. News 5659, 5749–51. *But see* Classic Film Museum, Inc. v. Warner Bros., Inc., 453 F. Supp. 852, 854 (D. Me. 1978), *aff'd*, 597 F.2d 13 (1st Cir. 1979) (on common law copyright).

84. 17 U.S.C.A. § 302(b) (West 1977).

date of first publication or 100 years from the date of creation, whichever is shorter.[85] This approach departs from the previous copyright act, which created the rights for twenty-eight years following registration, renewable for another twenty-eight years.[86] Accordingly, a copyright registered in 1960 must be renewed in 1988.

One of the most sweeping changes of the Act concerns the method by which federal copyright protection accrues to an author. Under the 1909 Copyright Act, federal copyright protection resulted from "publication" of the work with "notice" of copyright and was perfected by timely filing of a copyright application.[87] Once published, a work had to comply strictly with the provisions of the 1909 Copyright Act, or it became dedicated to the public.[88] The 1976 Act relaxed these requirements considerably.

In contrast to the rigid requirements for registration immediately following publication under the 1909 Copyright Act, authors presently receive copyright protection from the moment their works are created, that is, when they first become "fixed."[89] As a result, prepublication common law copyright is no longer needed, so the Act expressly preempts state copyright law.[90] Additionally, owners may now register their copyrights anytime within the duration of the copyright, whether the copyrighted work is published or not.[91]

The Act similarly relaxes the formal requirements of copyright notice. The form of the notice remains the same: the word "copyright," the abbreviation "copr.," or the symbol "©" together with the year of first publication and the name of the copyright owner.[92] For mechanical

85. *Id.* § 302(c).

86. Act of July 30, 1947, ch. 391 § 24, 61 Stat. 652, 659 (1947) (current version at 17 U.S.C.A. § 302 (West 1977)). *See* D. CHISUM, INTELLECTUAL PROPERTY: COPYRIGHT, PATENT AND TRADEMARK LAW § 3.06 at 3–54 (1980); *see also* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 134–35 (1976), *reprinted in* 1976 U.S. CODE CONG. & AD. NEWS 5659, 5749–51.

87. 1 M. NIMMER, NIMMER ON COPYRIGHT § 4.01(B), at 4–5 (1981).

88. *Id.* at 4–6. Authors had a "common law copyright" in their unpublished works. *See* Classic Film Museum, Inc. v. Warner Bros., Inc., 453 F. Supp. 852, 854 (D. Me. 1978), *aff'd*, 597 F.2d 13 (1st Cir. 1979).

89. *See* 17 U.S.C.A. §§ 102(a), 101 (West 1977); *see* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 52 (1976), *reprinted in* 1976 U.S. CODE CONG. & AD. NEWS 5659, 5665; 1 M. NIMMER, NIMMER ON COPYRIGHT, § 1.08(C)(2) (1981); *cf.* White-Smith Music Publishing Co. v. Appollo Co., 209 U.S. 1, 18, 28 S. Ct. 319, 52 L. Ed. 655 (1908) (requiring fixation in such form humans could directly perceive without machine); Columbia Broadcasting Sys., Inc. v. DeCosta, 377 F.2d 315, 320 (1st Cir. 1967) (suggesting that "writings" may include creations not in a tangible form).

90. 17 U.S.C.A. § 301 (West 1977); *see* Strout Realty, Inc. v. Country 22 Real Estate Corp., 493 F. Supp. 997, 999 (W.D. Mo. 1980); *see generally* Goldstein v. California, 412 U.S. 546, 560, 93 S. Ct. 2303, 37 L. Ed. 2d 163 (1973); Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 232–33, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964); Compco Corp. v. Day-Brite Lighting Inc., 376 U.S 234, 237–38, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964).

91. 17 U.S.C.A. § 408(a) (West 1977).

92. *Id.* § 401(b) (1977); *see* Dejonge & Co. v. Breuker & Kessler Co., 235 U.S. 33, 36, 35 S. Ct. 6, 59 L. Ed. 113 (1914) (strict compliance); Walker v. University Books, Inc., 602 F.2d 859, 863 (9th Cir. 1979) (forfeiture without copyright notice); Bell v. Combined Registry Co., 397 F. Supp. 1241, 1248 (N.D. Ill. 1975), *aff'd*, 536 F.2d 164, *cert. denied*, 429 U.S. 1001 (1976) (forfeiture).

recordings, the symbol "℗" is used instead of "©".[93] However, the penalty for omission of the notice is greatly reduced. Under the new provisions, the author will retain copyright protection, although the remedy for infringement will be more limited, if a copyrighted work is published without notice but (1) the notice was omitted from a relatively small number of copies distributed to the public; or (2) the work was registered within five years after publication without notice and a reasonable effort was made to add notice to all copies distributed to the public after the omission was discovered; or (3) the notice was omitted in violation of an express written requirement that the copyrighted work bear it.[94]

§ 5.17 Copyright Registration

Registration under the Act is generally simple. The owner of the copyright files an application for registration in the appropriate class with the Register of Copyrights along with the filing fee of ten dollars and one copy of the work if unpublished or two copies of the work if published; photographs portraying a three-dimensional object will suffice in lieu of the actual object.[95] If the Register determines that the subject matter is copyrightable and other formal and legal requirements are met, the Register issues the applicant a certificate of registration. Otherwise, the Register refuses registration and notifies the applicant in writing of the reasons for refusal. In order to properly complete the application, however, the general practitioner should have a working knowledge of the many possible relationships between authors, owners, and their respective claims of copyright.

In general, the author of a work will be the original owner of the copyright in that work.[96] When a work is made for hire, the person for whom the work is prepared is considered the author unless the parties have expressly agreed otherwise in writing.[97] Hence, the determination that a particular work is made for hire may be a fiercely litigated issue. The statutory definition appears simple: "(1) A work prepared by an employee within the scope of his or her employment; or (2) a work specially ordered or commissioned . . . if the parties expressly agree in a

93. 17 U.S.C.A. § 402(b) (West 1977).

94. *Id.* § 405(a); *see* Synercom Technology, Inc. v. University Computing Co., 462 F. Supp. 1003, 1010–11 (N.D. Tex. 1978).

95. 17 U.S.C.A. § 408(b) (West 1977); 37 C.F.R. § 202.3(c) (1981).

96. 17 U.S.C.A. § 201(a) (West 1977); Van Cleef & Arpels, Inc. v. Schechter, 308 F. Supp. 674, 676 (S.D.N.Y 1969) (person claiming copyright must be author or have succeeded to interest of); *see* Gilliam v. American Broadcasting Co., 538 F.2d 14 (2d Cir. 1976).

97. 17 U.S.C.A. § 201(b) (West 1977); H.R. Rep. No. 1476, 94th Cong., 2d Sess. 121 (1976), *reprinted in* 1976 U.S. CODE CONG. & AD. NEWS 5736–37; *see, e.g.*, Murray v. Gelderman, 566 F.2d 1307, 1309–10 (5th Cir. 1978); Dollcraft Indus., Ltd. v. Well-Made Toy Mfg., 479 F. Supp. 1105, 1114 (E.D.N.Y. 1978).

written instrument signed by them that the work shall be considered a work made for hire."[98] However, the application of the statute frequently becomes complex.[99]

An author who sells the original work retains ownership of the copyright unless the parties expressly agree to the contrary in writing.[100] While this rule has numerous exceptions, it generally applies to works executed after January 1, 1978.

A work prepared by two or more authors may be a "joint work" if they intend that their respective contributions "be merged into inseparable or interdependent parts of a unitary whole."[101] Determining what the parties intend to include and exclude in a merged contribution can present many practical problems unless the creators of the work agree in writing.

A "collective work" consists of a number of independent works assembled as a collective whole, for example, an encyclopedia.[102] As a general rule, the express written consent of each contributing author or creator is necessary to compile or copy such a work.[103]

A "compilation" is formed by the collection and assembly of preexisting materials or data selected, coordinated, or arranged so that the resulting work as a whole constitutes an original work.[104] A collective work is a special type of compilation.

A work based on one or more preexisting works, such as a motion picture made from a book, is referred to as a "derivative work."[105] It may include any form in which the original work may be recast, transformed, or adapted.[106]

Finally, the ownership of a copyright may be transferred in whole or in part by any means of conveyance or operation of law.[107] Although this

98. 17 U.S.C.A. § 101 (West 1977).

99. *See* Samet & Wells, Inc. v. Shalom Toy Co., 429 F. Supp. 895, 901–02 (E.D.N.Y. 1977), *aff'd*, 578 F.2d 1369 (2d Cir. 1978) (absent express contractual reservation).

100. 17 U.S.C.A. § 202 (West 1977); *see* Werckmeister v. Springer Lithographing Co., 63 F. 808, 811 (S.D.N.Y 1894).

101. 17 U.S.C.A. § 101 (West 1977); *see* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 120–21 (1976), *reprinted in* 1976 U.S. CODE CONG. & AD. NEWS 5735–37; Shapiro, Bernstein & Co. v. Jerry Vogel Music Co., 161 F.2d 406 (2d Cir. 1946); Shapiro, Bernstein & Co. v. Jerry Vogel Music Co., 221 F.2d 569, on rehearing 223 F.2d 252 (2d Cir. 1955); *but see* Gilliam v. American Broadcasting Co., 538 F.2d 14 (2d Cir. 1976).

102. *See* 17 U.S.C.A. § 101 (West 1977).

103. *See id.* § 201(c); Pye v. Mitchell, 574 F.2d 476 (9th Cir. 1978).

104. 17 U.S.C.A. §§ 101, 103 (West 1977); *see, e.g.*, Schroeder v. William Morrow & Co., 566 F.2d 3, 5 (7th Cir. 1977); Leon v. Pacific Tel. & Tel. Co., 91 F.2d 484, 486 (9th Cir. 1937); *but see, e.g.*, Triangle Publications, Inc. v. New England Newspaper Publishing Co., 46 F. Supp. 198, 201 (D. Mass. 1942) (report of raw data on a single event, such as a horse race, will not suffice).

105. 17 U.S.C.A. §§ 101, 103 (West 1977); *see* Rohauer v. Killiam Shows, Inc., 551 F.2d 484, 487–88 (2d Cir. 1977); Reyher v. Children's Television Workshop, 387 F. Supp. 869 (S.D.N.Y 1975), *aff'd*, 533 F.2d 87 (2d Cir.), *cert. denied*, 429 U.S. 980 (1976).

106. 17 U.S.C.A. § 101 (West 1977); *see* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 57 (1976), *reprinted in* 1976 U.S. CODE CONG. & AD. NEWS 5670–71.

107. 17 U.S.C.A. § 201(d)(1) (West 1977); *see, e.g.*, Rohauer v. Killiam Shows, Inc., 551 F.2d 484, 492 (2d Cir. 1977); Filmvideo Releasing Corp. v. Hastings, 446 F. Supp. 725, 728

is a simple statutory provision, many attorneys seem to think that magical language is required to transfer a copyright. However, a valid transfer requires only a written memorandum identifying the copyright and the purchaser and signed by the owner or the owner's duly authorized agent.[108] However, to be entitled to institute an infringement action, a party claiming copyright ownership by virtue of such a transfer must have recorded the transfer in the copyright office.[109]

§ 5.18 Infringements and Remedies

"Anyone who violates any of the exclusive rights of the copyright owner . . . is an infringer of the copyright."[110] A wide variety of sanctions may be imposed on the infringer, depending on the circumstances. Possible sanctions include: an injunction against infringing acts,[111] impoundment of infringing articles,[112] monetary rewards of actual damages and profits or statutory damages,[113] costs, and attorneys' fees.[114] Criminal sanctions are also available against willful infringement.[115]

The United States District Courts have original and exclusive jurisdiction over copyright infringement cases.[116] A copyright owner must have sought to register the copyright before filing suit for infringement, though not necessarily prior to the infringement.[117] An owner who does not register the copyright prior to the infringement, however, is usually precluded from recovering statutory damages and attorneys' fees.[118] The exception occurs when the infringing act commenced after the first publication of the work and the copyright was registered within three months after publication.[119]

The loss of statutory damages and attorneys' fees can be significant, especially when actual damages are difficult to prove and the cost of prosecuting would exceed the amount of recovery. Under the statutory

(S.D.N.Y. 1978); Coca-Cola Co. v. State, 225 S.W. 791, 793 (Tex. Civ. App.—Austin 1920, no writ) (assignments).

108. *See* 17 U.S.C.A. § 204(a) (West 1977); *cf.* Calaghan v. Myers, 128 U.S. 617, 658, 9 S. Ct. 177, 32 L. Ed. 547 (1888) (prior law).

109. 17 U.S.C.A. § 205(d) (West 1977).

110. *Id.* § 501(a).

111. *Id.* § 502; *see* Dallas Cowboys Cheerleaders, Inc. v. Scoreboard Posters, Inc., 600 F.2d 1184, 1188 (5th Cir. 1979).

112. 17 U.S.C.A. § 503 (West 1977); *see* National Research Bureau, Inc. v. Kucker, 481 F. Supp. 612, 615–16 (S.D.N.Y. 1979).

113. 17 U.S.C.A. § 504 (West 1977).

114. 17 U.S.C.A. § 505 (West 1977); *see* George Simon, Inc. v. Spatz, 492 F. Supp. 836, 838 (W.D. Wis. 1980). *See also* Iowa State Univ. Research Foundation, Inc. v. American Broadcasting Co., 475 F. Supp. 78, 83 (S.D.N.Y. 1979).

115. 17 U.S.C.A. § 506 (West 1977); *see* United States v. Wise, 550 F.2d 1180, 1194 (9th Cir. 1977), *cert. denied*, 434 U.S. 929 (1977).

116. 28 U.S.C.A. §§ 1338(a), 1400 (West 1976).

117. 17 U.S.C.A. § 411(a) (West 1977); *see* Esquire, Inc. v. Ringer, 591 F.2d 796, 806 n.28 (D.C. Cir. 1978).

118. 17 U.S.C.A. § 412 (West 1977); *see* Streeter v. Rolfe, 491 F. Supp. 416, 421–22 (W.D. La. 1980).

119. 17 U.S.C.A. § 412(2) (West 1977); *see* Streeter v. Rolfe, 491 F. Supp. 416, 421 (W.D. La. 1980).

scheme, "the copyright owner may elect, at any time before final judgement is rendered, to recover, instead of actual damages and profits, an award of statutory damages . . . in a sum of not less than $250 or more than $10,000 as the court considers just."[120] If the infringement is proven willful, the infringer may be liable for not more than $50,000 as statutory damages.[121] However, if the "infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright," the court has discretion to reduce the award to no less than $100 as statutory damages.[122] Frequently statutory damages and attorneys' fees constitute the largest portion of an award.

The innocent infringer mentioned above should not be confused with the person who innocently infringes a work without a copyright notice. The latter infringer cannot be held liable for statutory *or actual* damages from infringing acts committed prior to receiving actual notice of a copyright claim.[123]

Most corporations simply put a copyright notice on everything copyrightable to eliminate most innocent infringement problems. Subsequently, they file a registration application only on important matters or on copyrightable, infringed matter. For example, Light Demand Corporation may decide not to file a copyright registration application on every piece of its advertisement but may file one on its nationwide television ad. The decision of whether to file should be based on importance of the subject matter.

Probably the most effective bargaining tool in many copyright infringement cases is the fact that a willful copyright infringer found criminally liable can be fined and/or imprisoned. However, a three-year statute of limitations applies to both criminal and civil proceedings after the cause of action either arose or accrued.[124]

IV. TRADEMARKS

§ 5.25 Introduction

Trademarks have little in common with patents and copyrights. They do not fall under the constitutional grant of congressional power inur-

120. 17 U.S.C.A. § 504(c)(1) (West 1977); *see* Original Appalachian Artworks, Inc. v. Toy Loft, Inc., 489 F. Supp. 1974, 180 (N.D. Ga. 1980).

121. 17 U.S.C.A. § 504(c)(2) (West 1977).

122. *Id.*; *see generally* Lottie Joplin Thomas Trust v. Crown Publishers, Inc., 456 F. Supp. 531, 539 (S.D.N.Y. 1977), *aff'd*, 592 F.2d 651 (2d Cir. 1978).

123. 17 U.S.C.A. § 405(b) (West 1977).

124. *Id.* § 507; *see* Prather v. Neva Paperbacks, Inc., 446 F.2d 338 (5th Cir. 1971).

ing to the benefit of authors and inventors. Nor does the Lanham Act[140] (the Act) preempt concurrent state regulation of trademarks. More significantly, patents and copyrights seek to place what was originally an undisclosed, novel expression or invention into the public domain eventually. In contrast, trademarks seek to remove symbols from the public domain for exclusive use by the trademark owner indefinitely.

Nevertheless, trademarks do represent property interests much like patents and copyrights. All three impart monopolies to their owners, but the underlying rationales for allowing the monopolies are different. Patent and copyright monopolies are allowed as incentives for creativity, but a trademark monopoly is designed to preclude unfair competition. Unfair competition is a broad term, encompassing far more than just trademarks; therefore, this chapter will discuss only the aspects of unfair competition directly relating to trademarks.

§ 5.26 Trademark Rights

§ 5.26:1 Types of Marks

A trademark identifies a particular source for goods.[141] The reputation of that source for the quality of those goods constitutes the goodwill protected by the trademark. No one else should be entitled to benefit from the goodwill established in the mark by the original user; hence, the need for trademark protection.

Goodwill can be developed in marks other than those used on goods in commerce. For instance, marks used in the sale or advertising of services may be protected as service marks.[142] The Act recognizes four categories of marks generally afforded the same protection as trademarks except where noted. In addition to trademarks and service marks, collective marks and certification marks may be registered.[143] Collective marks include "marks used to indicate membership in a union, an association, or other organization."[144] A certification mark indicates that the

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[Footnotes 125–139 are reserved for expansion.]

140. 15 U.S.C.A. §§ 1051–1072, 1091–1096, 1111–1121, 1123–1127 (West 1976).

141. *See* Blue Bell, Inc. v. Farah Mfg. Co., 508 F.2d 1260, 1264 (5th Cir. 1975). 15 U.S.C.A. § 1127 (West 1982) states in pertinent part: "The term 'trade-mark' includes any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."

142. *See* Boston Professional Hockey Ass'n v. Dallas Cap & Emblem Mfg., 510 F.2d 1004, 1009 (5th Cir.), *cert. denied*, 423 U.S. 868 (1975). 15 U.S.C.A. § 1127 (West 1982) states in pertinent part: "The term 'service mark' means a mark used in the sale or advertising of services to identify the services of one person and distinguish them from the service of others."

143. *Id.* § 1054 (1963).

144. *Id.* § 1127 (1982); *see, e.g.*, Professional Golfers Ass'n of America v. Bankers Life & Cas. Co., 514 F.2d 665, 668 (5th Cir. 1975); R.M. Hollingshead Corp. v. Davies–Young Soap Co., 121 F.2d 500, 504 (C.C.P.A. 1941).

quality of the goods or services marked, which are not sold or performed by the owner of the mark, meets a particular standard;[145] for instance, an extension cord meets the electrical safety standards set by the Underwriters Lab, or a product merits the Good Housekeeping seal of approval. A mark that serves more than one purpose must be registered according to each type of use; hence, the distinction has practical consequences. However, the term trademark will be used here to include all types of marks when applicable.

§ 5.26:2 Marks Subject to Protection

Trade names cannot be protected as trademarks unless they are used as trademarks. Thus, recording an assumed name merely informs the public of who owns the entity operating under the assumed name; incorporating under a name indicates only that no other corporations operate under a similar corporate name within Texas. Neither act establishes an exclusive right to use the name as a mark associated with particular goods or services.

Even if a mark is used as a trademark, public policy may preclude its protection as such. For instance, immoral, deceptive, or scandalous material may not receive trademark protection.[146] Similarly, public policy mandates that names, colors, locations, and so on remain in the public domain. Thus, although a trademark can be any type of symbol, design, logo, word, sound, or the like, no one can have exclusive rights to use the color yellow. A particular use of the color yellow, however, may become a trademark.[147]

A strong public policy precludes trademark protection of common descriptive or generic words. To illustrate, in the early 1970s Miller Brewing Company promoted its Lite beer extensively and in 1975 sought to enjoin other breweries from selling "light" beer by claiming trademark infringement.[148] The Seventh Circuit denied injunctive relief and explained "The word 'light,' including its phonetic equivalent 'lite,' being a generic or common descriptive term as applied to beer, could not be

145. *See* Community of Roquefort v. William Faehndrich, Inc., 303 F.2d 494, 497 (2d Cir. 1962). 15 U.S.C.A. § 1127 (West 1982) states in pertinent part: The term "certification mark" means a mark used upon or in connection with the products or services of one or more persons other than the owner of the mark to certify regional or other origin, material, mode of manufacture, quality, accuracy or other characteristics of such goods or services or that the work or labor on the goods or services was performed by members of a union or other organization.

146. 15 U.S.C.A. § 1052(a) (West 1976); *see In re* Riverbank Canning Co., 95 F.2d 327, 329 (C.C.P.A. 1938).

147. *See* Southwestern Bell Tel. Co. v. Nationwide Indep. Directory Serv., Inc. 371 F. Supp. 900, 911 (W.D. Ark, 1974).

148. Miller Brewing Co. v. G. Heileman Brewing Co., 561 F.2d 75 (7th Cir. 1977), *cert. denied*, 434 U.S. 1025 (1978).

exclusively appropriated by Miller as a trademark, despite whatever promotional effort [Miller] may have expended to exploit it."[149]

This court articulated the circumstances under which a descriptive mark may become a trademark:

> A generic or common descriptive term is one which is commonly used as the name or description of a kind of goods. It cannot become a trademark under any circumstances. . . . A merely descriptive term specifically describes a characteristic or ingredient of an article. It can, by acquiring a secondary meaning . . . become a valid trademark. . . . A suggestive term suggests rather than describes an ingredient or characteristic of the goods and requires the observer or listener to use imagination and perception to determine the nature of the goods. Such a term can be protected without proof of a secondary meaning. . . . An arbitrary or fanciful term enjoys the same full protection as a suggestive term but is far enough removed from the merely descriptive not to be vulnerable to possible attack as being merely descriptive rather than suggestive.[150]

"Secondary meaning" implies that a mark not only describes the goods, but also has become associated with them in the minds of a significant segment of the purchasing public.[151] Proof of secondary meaning can be difficult since the standard is so subjective. However, on a strong showing of secondary meaning, even geographically descriptive marks[152] and surnames[153] will receive limited trademark protection; then junior users must carefully distinguish their goods from the senior user's goods to minimize the likelihood of confusion.

The Act incorporates the common law concept of secondary meaning by allowing registration of marks that are "merely descriptive," "primarily geographically descriptive," or "primarily merely a surname" if they have become "distinctive of applicant's goods in commerce."[154] Moreover, the Commissioner of Patents and Trademarks may accept proof of substantially exclusive and continuous use of the mark for five years preceding filing as prima facie evidence of distinctiveness.[155]

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149. *Id.* at 81.

150. *Id.* at 79.

151. *See* Continental Motors Corp. v. Continental Aviation Corp., 375 F.2d 857, 861 (5th Cir. 1967).

152. *See id.* at 862; American Waltham Watch Co. v. United States Watch Co., 173 Mass. 85, 53 N.E. 141, 142 (1899); Harrelson v. Wright, 339 S.W.2d 712, 714 (Tex. Civ. App.—Eastland 1960, writ ref'd).

153. *See* Taylor Wine Co. v. Bully Hill Vineyards, Inc., 569 F.2d 731, 734–35 (2d Cir. 1978).

154. 15 U.S.C.A. § 1052(e), (f) (West 1976); *see* Union Carbide Corp. v. Ever-Ready, Inc., 531 F.2d 366, 381 (7th Cir.), *cert. denied*, 429 U.S. 830 (1976).

155. 15 U.S.C.A. § 1052(f) (West 1976); *see* American Heritage Life Ins. Co. v. Heritage Life Ins. Co., 494 F.2d 3, 11 (5th Cir. 1974).

§ 5.26:3 Use of Marks in Commerce

Even if a mark is suitable for use as a trademark, it cannot be protected federally until it is actually used in commerce because trademark rights protect the goodwill that has developed from the mark's use on goods in commerce. In this context, both the terms "use" and "in commerce" have special meanings. The Act defines commerce as "all commerce which may lawfully be regulated by Congress."[156] The Patent and Trademark Office applies different standards to trademarks and service marks to determine when they are used in commerce. Generally, proof that goods bearing the mark have passed over a state line is necessary to establish use of a trademark in commerce.[157] However, it is sufficient for a service mark to be used in one state alone if it is used in connection with services rendered to out-of-state customers or services otherwise affecting interstate commerce directly and substantially.[158] Thus, Ollie's Barbecue in Birmingham, Alabama has used its mark "in commerce" for the same reasons that it was forced to comply with the 1964 Civil Rights Act, that is, because it bought about $70,000 of food annually from out-of-state.[159]

For a trademark to be "used" in commerce, it must be affixed to the goods or the containers for the goods when the goods are in commerce.[160] Although the requirement for "affixing" the mark to the goods has been relaxed somewhat by the Act,[161] the Patent and Trademark Office has traditionally taken a strict view of the degree of physical proximity of the mark to the goods required for federal registration.[162] Service marks, however, need only be used or displayed in the sale or advertising of services.[163] In either case, the mark must be used in a good faith commercial endeavor and not merely for the purpose of establishing trademark rights.[164]

By using an appropriate mark on goods in commerce, then, a man-

156. 15 U.S.C.A. § 1127 (West 1982); *see In re* Silenus Wines, Inc., 557 F.2d 806, 809 (C.C.P.A. 1977).

157. *See* Marita Spirits Ltd. v. Charles Jacquin Et Cie, Inc., 161 U.S.P.Q. (BNA) 240 (T.T.A.B. 1969); *but see* Coca-Cola Co. v. Stewart, 621 F.2d 287, 290–91 (8th Cir. 1980).

158. *See In re* Smith Oil Corp., 156 U.S.P.Q. (BNA) 62 (T.T.A.B. 1967); *In re* Ponderosa Motor Inns, Inc., 156 U.S.P.Q. (BNA) 474 (T.T.A.B. 1968); Trail Chevrolet, Inc. v. General Motors Corp., 381 F.2d 353 (5th Cir. 1967); Application of Gastown, Inc., 326 F.2d 780, 782 (C.C.P.A. 1964).

159. *See* Katzenbach v. McClung, 379 U.S. 294, 304–05, 85 S. Ct. 377, 13 L. Ed. 2d 290 (1964).

160. *See* Victor Tool & Mach. Corp. v. Sun Control Awnings, Inc., 299 F. Supp. 868 (E.D. Mich. 1968), *aff'd per curiam*, 411 F.2d 792 (6th Cir. 1969).

161. *See* Acme Valve & Fittings Co. v. Wayne, 386 F. Supp. 1162, 1169 (S.D. Tex. 1974); 1 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 16:10 at 579 (1981).

162. *Id.* at 583–84 (1981).

163. *See* West & Co. v. Arica Inst., Inc., 557 F.2d 338, 340 n.1 (2d Cir. 1977).

164. *See* Spectrolab, Inc. v. Spectralab Instruments, 131 U.S.P.Q. (BNA) 395 (T.T.A.B. 1961).

ufacturer can protect from infringement the goodwill associated with the trademark. Attempting to benefit from that goodwill by using a similar mark on similar goods so that confusion, mistake, or deception is likely makes another user liable for trademark infringement. When two parties claim rights in a mark and each alleges infringement of that mark by the other party, the issue is resolved in favor of the first user in commerce—first in time, first in right.

An exception under common law favored a user who adopted the mark without notice of the prior user's rights in a trade area outside that of the prior user.[165] Since trademark rights developed through use of the mark, prior users had no rights in trade territories in which their goods had no established reputation. However, a party adopting a mark with notice of a prior user could not acquire rights in the same mark simply by using it in a different trade area. Only the innocent junior user could develop rights in the same mark.

A trademark search can determine fairly reliably whether a particular mark or any similar mark has been used before. The circumstances will determine whether such a search is advisable. A party evaluating a prospective mark will typically conduct a search for prior users to ensure that use of the mark can be protected and will not infringe anyone else's rights. If the search does reveal a senior user, then the second user can no longer innocently adopt the mark because the search has provided actual notice of the first user's superior rights. Thus, if Light Demand Corporation has already firmly adopted the "LIGHT DEMAND" mark for its switches, it may not want to know if anyone else has superior rights in the mark. If it did know, however, the corporation could then elect not to seek registration of its mark to avoid giving notice to the senior user of Light Demand Corporation's potentially infringing use of the mark.

In contrast to the common law rights of the first user of a mark, the first federal registrant of a mark gives constructive notice to everyone in the United States of the registrant's rights in the mark.[166] No one can subsequently acquire rights in a mark that would be likely to cause confusion, mistake, or deception when applied to similar goods, even if such adoption is actually innocent.[167] Thus, by using the mark in just two states the first registrant of a mark effectively acquires the entire United States as a trade area.

Of course, registration of a mark will not give junior users rights su-

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165. *See* Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 419, 36 S. Ct. 357, 60 L. Ed. 713 (1916).

166. 15 U.S.C.A. § 1072 (West 1967); *see* John R. Thompson Co. v. Holloway, 366 F.2d 108, 116 (5th Cir. 1966).

167. *See* 15 U.S.C.A. § 1052(d) (West 1976); Bourjois, Inc. v. Cheatham Chem. Co., 47 F.2d 812, 814 (C.C.P.A. 1931).

perior to those of senior users; that is, senior users will always retain the right to exclusive use of the mark within their trade area.[168] Moreover, a party with superior rights may institute opposition, interference, or cancellation proceedings to deprive a junior user of registration, if timely done (within five years for cancellation of a registered mark). Frequently the owner of a federally registered mark is not the senior user of the mark, especially in nationwide franchising operations. Such concurrent use problems can be perplexing, but the general rule remains: senior users retain the rights to exclusive use of the mark within their trade area, and registrants retain the rights in the remainder of the United States. Perplexities arise in determination of trade areas; some relevant factors include actual use, intended use, good faith, and likelihood of confusion.[169] As in most areas of trademark law, equities will frequently govern the outcome of any litigation.

§ 5.27 Trademark Registration

In order to be registered federally, a mark must have already acquired common law trademark rights through use in interstate commerce. Federal registration, however, imparts significant advantages to the registrant beyond common law rights.

First, the registrant enjoys the benefit of constructive notice throughout the United States so that no one can subsequently innocently adopt that mark. Further, numerous evidentiary presumptions accrue to the registrant. For instance, the registration certificate constitutes prima facie evidence of the registrant's ownership of the mark, the validity of the registration, and the exclusive right to use the mark in interstate commerce.[170] The rebuttable presumption of the trademark's validity is particularly valuable; without the presumption, proving the secondary meaning of a descriptive mark can be extremely difficult.[171] Additionally, after five years of continuous use of a registered mark and submission of the proper affidavits, ownership of the mark may become incontestable; that is, even a senior user of the same mark in the same area is precluded from petitioning to cancel the registration on the basis of prior use.[172] Federal courts have concurrent jurisdiction over infringe-

168. *See generally* Weiner King, Inc. v. Wiener King Corp., 615 F.2d 512, 523–25 (C.C.P.A. 1980); Holiday Inn v. Holiday Inns, Inc., 534 F.2d 312, 320 (C.C.P.A. 1976).

169. *See* Weiner King, Inc. v. Wiener King Corp., 615 F.2d 512, 523–26 (C.C.P.A. 1980); Wrist-Rocket Mfg. v. Saunders Archery Co., 578 F.2d 727, 731–33 (8th Cir. 1978).

170. 15 U.S.C.A. § 1057(b) (West 1963); *see* Waples-Platter Co. v. General Foods Corp., 439 F. Supp. 551, 577 (N.D. Tex. 1977).

171. *See* Soweco, Inc. v. Shell Oil Co., 617 F.2d 1178, 1184–85 (5th Cir. 1980).

172. 15 U.S.C.A. § 1065 (West Supp. 1982); *see* Holiday Inn v. Holiday Inns, Inc., 534 F.2d 312, 319–20 (C.C.P.A. 1976).

ment actions on federally registered marks regardless of the citizenship of the parties or the amount in controversy.[173] Further, statutory remedies allow treble damages and attorneys' fees when warranted.[174] Thus, federal registration greatly expands a registrant's preexistent trademark protection.

To obtain federal trademark registration, one must submit to the United States Patent and Trademark Office the executed original of the application along with five specimens showing use of the mark for each class in which the goods are being registered.[175] If preprinted application forms from the Patent and Trademark Office are used, they carry a potential liability. For example, an attorney who relies on such forms may be unaware of the Trademark Rules of Practice within the United States Patent and Trademark Office and may omit certain information, required but not requested on the face of the application form. As a result, several years later after an entire franchising system has been set up based on the mark, the registration of the mark could be held invalid. The potential liability for the attorney if pressed by the client could be disastrous.

On many occasions, a client utilizes a particular mark for some time on a number of different goods or services. If these goods or services fall in different classes under the International Classification System as adopted by the United States Patent and Trademark Office, the mark should be registered in multiple classes by a separate application per class or by one application covering multiple classes.[176] In either event, a separate filing fee of thirty-five dollars per class is required, plus five specimens of the mark as used in each class. However, this fee will soon increase, for Congress has recently given the Commissioner of Patents and Trademarks the authority to set higher fees according to a statutory formula.[177] If a registration problem is anticipated in any particular class, a separate application should be filed for that class.

After the filing of the registration application, the examiner typically requires some amendment. The examiner may want a clarification of the goods or services or may cite references against the issuance of the registration. On many occasions, the examiner's action will necessitate supporting affidavits.

Once federal registration is obtained, certain actions are still required to preserve all of the protection available to the registrant. For instance,

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173. *See* 28 U.S.C.A. § 1338 (West 1976); *id.* § 1331 (West Supp. 1982).

174. 15 U.S.C.A. § 1117 (West 1982); *see* Holiday Inns, Inc. v. Airport Holiday Corp., 493 F. Supp. 1025, 1028 (N.D. Tex. 1980).

175. 37 C.F.R. § 2.56 (1981).

176. 15 U.S.C.A. § 1112 (West Supp. 1982).

177. *See id.* § 1113; 37 C.F.R. § 2.6 (1981).

the registrant should give notice of the mark's registration by displaying the words "Registered in U.S. Patent and Trademark Office," the abbreviation "Reg. U.S. Pat. & Tm. Off.," or the symbol "®" whenever the mark is used. Failure to provide such notice precludes the registrant from recovering profits and damages for infringement under the Act unless the defendant had actual notice of the registration.[178]

Under state and common law, the user of a mark gives notice of a claim of trademark protection by means of the notation "TM." However, placing the notation "TM" adjacent to marks that might be considered generic or merely descriptive can sometimes be unwise. If a prior user of the same mark should subsequently sue for infringement, this notification of a claim of trademark protection could prove detrimental to a defense of trademark invalidity.

State registration closely parallels federal registration with certain obvious exceptions. The goods must be used in commerce in Texas.[179] Texas registration provides constructive notice throughout Texas.[180] Also, two notarized copies of the state application along with two specimens of the mark must be sent to the Secretary of State for registration.[181]

§ 5.28 Infringement

The standard test for trademark infringement is whether the alleged infringer's use of the mark, goods, or services is likely to cause confusion, to cause mistake, or to deceive.[182] This same test determines whether a mark may be registered; if it would infringe a previously registered mark, it clearly should not be registrable.[183]

Since even different marks can easily be confused, the "likelihood of confusion" test can be extremely subjective. The Court of Customs and Patent Appeals enunciated an extensive but not exhaustive list of factors to be considered in assessing the likelihood of confusion in *In re E.I. DuPont de Nemours & Co.*[184] Among many, three major factors include: "(1) The similarity or dissimilarity of the marks in their entireties as to appearance, sound, connotation and commercial impression. (2) The similarity or dissimilarity and nature of the goods or services . . . (3) The similarity or dissimilarity of established, likely-to-continue trade channels."[185] Any of these factors or others may dominate in eval-

178. *Id.* § 1111; *see* Howard Stores Corp. v. Howard Clothing, Inc., 311 F. Supp. 704 (N.D. Ga. 1970).

179. TEX. BUS. & COM. CODE ANN. § 16.02(a) (Vernon 1968); *see, e.g.*, Blue Bell, Inc. v. Farah Mfg., 508 F.2d 1260, 1264, 1267 (5th Cir. 1975).

180. TEX. BUS. & COM. CODE ANN. § 16.15(b) (Vernon 1968); *see* note, *Trademark Protection Under the Texas Trademark Act*, 23 BAYLOR L. REV. 134, 135 (1971).

181. TEX. BUS. & COM. CODE ANN. § 16.10(c) (Vernon Supp. 1982).

182. 15 U.S.C.A. § 1114(1)(a) (West 1963).

183. *Id.* § 1052(d).

184. 476 F.2d 1357, 1361 (C.C.P.A. 1973).

185. *Id.* at 1361.

uating the likelihood of confusion, depending on the particular facts of the case. Again, the equities of the case may bear strongly on the factual determination of infringement.

The user of a valid trademark who can prove infringement has numerous remedies available: an injunction against the infringing acts;[186] a court order requiring destruction of infringing articles;[187] and damages, profits, and costs.[188] One of the largest awards given in the United States for trademark infringement was in *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*,[189] wherein the jury awarded Big O $2,800,000 actual damages and $16,800,000 punitive damages, even though its net worth was only $200,000. This award was later reduced on appeal to $678,302 actual damages and $4,069,812 punitive damages.[190] Treble damages and attorneys' fees may be awarded in exceptional cases if the mark is federally registered.[191]

Federal courts have concurrent jurisdiction over infringement suits involving federally registered marks.[192] A suit concerning a mark not federally registered can also obtain federal jurisdiction by alleging false designation of origin of goods or services or even false representation of goods or services in commerce.[193] In either case, suit may be brought where the defendant resides, where the defendant has his or her principal place of business, or where the infringement occurred.[194] Someone accused of infringing can also bring an action for a declaratory judgment in the district where he or she resides and thus obtain jurisdiction over the accusor, even though the accusor neither resides in the district nor claims any acts of infringement there. Because state and federal courts have concurrent jurisdiction in these matters, the judges and docket loads of both court systems should be considered in selecting a forum.

Without other grounds for federal jurisdiction, an action for infringement of a trademark without federal registration must be brought in state district court. The normal state rules of jurisdiction and venue apply; however, the infringer can be sued in any county where the infringement occurs.[195] Therefore, if a manufacturer located elsewhere in

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186. 15 U.S.C.A. § 1116 (West 1982); *see* Mushroom Makers, Inc. v. R.G. Barry Corp., 580 F.2d 44, 49 (2d Cir. 1978), *cert. denied*, 439 U.S. 1116 (1979).

187. 15 U.S.C.A. § 1118 (West 1982); *see* Amana Soc. v. Gemeinde Brau, Inc., 417 F. Supp. 310 (N.D. Iowa 1976), *aff'd*, 557 F.2d 638 (8th Cir.), *cert. denied*, 434 U.S. 967 (1977).

188. 15 U.S.C.A. § 1117 (West 1982); *see* Maltina Corp. v. Cawy Bottling Co., 613 F.2d 582 (5th Cir. 1980).

189. 408 F. Supp. 1219 (D. Colo. 1976), *aff'd as modified*, 561 F.2d 1365 (10th Cir. 1977), *cert. denied*, 434 U.S. 1052 (1978).

190. *See id.* 561 F.2d at 1375–76.

191. 15 U.S.C.A. § 1117 (West 1982).

192. *See* 28 U.S.C.A. § 1338 (West 1976); *id.* § 1331 (Supp. 1982).

193. *See id.* § 1125(a) (1982); *see* Boston Professional Hockey Ass'n v. Dallas Cap & Emblem Mfg., 510 F.2d 1004, 1010 (5th Cir.), *cert. denied*, 423 U.S. 868 (1975).

194. 28 U.S.C.A. § 1391(b), (c) (West 1976).

195. TEX. BUS. & COM. CODE ANN. § 16.26(b) (Vernon 1968); *see* Stone v. English, 465 S.W.2d 179, 181 (Tex. Civ. App.—Fort Worth 1971, no writ).

the United States is selling an infringing product in San Antonio, Bexar County, Texas, the trademark owner can file suit for trademark infringement in Bexar County and obtain jurisdiction over the defendant. This principle applies even though the defendant may reside at any other location in the United States and have no contact with Bexar County other than selling the infringing product there.

The defendant in a suit for infringement has a number of possible defenses, one of which is to deny the likelihood of confusion. Since the determination of infringement is so subjective in many cases, this denial is a very common defense. In a highly criticized case, *Dawn Donut Co. v. Hart's Food Stores, Inc.*,[196] the Second Circuit Court of Appeals refused to enjoin defendant's use of plaintiff's mark. The plaintiff had registered his mark before the defendant adopted it; however, the plaintiff did not use his mark within sixty miles of defendant's trade area. The court reasoned that since plaintiff had no intent to use the mark in defendant's market area at that time, no likelihood of confusion existed, so no injunction could issue.[197]

Alternatively, a defendant could attack the validity of the plaintiff's mark. After five years of continuous use following federal registration, however, the mark becomes incontestable, so the grounds available for challenging validity are then severely limited.[198] The most common allegations regarding incontestable marks include descriptiveness and abandonment. A mark can become so associated with a product (for instance, "Singer" with a sewing machine or "Cellophane" with a clear, synthetic wrapper), that it might be considered a common descriptive term and therefore unprotectable. Abandonment of the mark under the Act occurs:

> (a) When its use has been discontinued with intent not to resume. Intent not to resume may be inferred from circumstances. Nonuse for two consecutive years shall be prima facie abandonment.
> (b) When any course of conduct of the registrant, including acts of omission as well as commission, causes the mark to lose its significance as an indication of origin.[199]

In either case, the validity of an incontestable mark is difficult to contest.

A defendant could also claim rights in the mark from prior use,[200]

196. 267 F.2d 358 (2d Cir. 1959).
197. *Id.* at 365.
198. *See* 15 U.S.C.A. § 1065 (West Supp. 1982).
199. *Id.* § 1127 (1982).
200. *Id.* § 1115(b)(5) (1982); *see* Wrist-Rocket Mfg. Co. v. Saunders Archery Co., 578 F.2d 727, 730 (8th Cir. 1978).

from adoption without notice,[201] or as the good faith user of an individual's name or a place of origin.[202] Even without such rights a defendant can still prevail on a showing of plaintiff's improper use of the trademark, such as using it to misrepresent the source of the goods[203] or to violate antitrust laws.[204]

§ 5.29 Unfair Competition

Trademark law grew out of the body of law commonly referred to as unfair competition, which derives from the old common law action of "passing off" or "palming off."[205] Examples of unfair competition include the following:

> Trademark infringement; dilution of goodwill in trademarks; use of similar corporate, business or professional name; use of titles of literary works on other literary property and on commercial goods; simulation of a container or product configuration; simulation of trade dress and packaging; misrepresentation; 'bait and switch' selling tactics; false representations and false or misleading advertising; palming off goods by unauthorized substitution of one brand for the brand ordered; competition by a seller of a business with the buyer; commercial bribery; theft of trade secrets; and a former employee's solicitation of his employer's customers by use of confidential information.[206]

The overlap between unfair competition and trademark law can be seen readily in *American Steel Foundries v. Robertson*.[207] The Supreme Court decided that, although a trademark must be "affixed" and a trade name need not be, "the precise difference is not often material, since the law affords protection against its appropriation in either view, upon the same fundamental principles."[208]

The law of unfair competition developed significantly under federal common law until *Erie R.R. v. Tompkins*.[209] After *Erie*, many states greatly expanded their own common law protection of "intellectual property rights," and some departed significantly from earlier federal

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201. 15 U.S.C.A. § 1115(b)(5) (West 1982); *see* Matador Motor Inns, Inc. v. Matador Motel, Inc., 376 F. Supp. 385, 388 (D.N.J. 1974).

202. 15 U.S.C.A. § 1115(b)(4) (West 1982).

203. *Id.* § 1115(b)(3); *see* Manhattan Medicine Co. v. Wood, 108 U.S. 218, 223, 2 S. Ct. 436, 27 L. Ed. 706 (1883).

204. 15 U.S.C.A. § 1115(b)(7) (West 1982); *see* Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena, 298 F. Supp. 1309, 1314 (S.D.N.Y. 1969).

205. A. SEIDEL, WHAT THE GENERAL PRACTITIONER SHOULD KNOW ABOUT TRADEMARKS AND COPYRIGHTS 73 (4th ed. 1979).

206. Munzinger & Hassler, *Litigation Between Business Interests*, 2 ADVANCED CIVIL TRIAL COURSE BOOK Y-68 through Y-80, State Bar of Texas (1981).

207. 269 U.S. 372, 45 S. Ct. 160, 70 L. Ed. 317 (1926).

208. *Id.* at 380.

209. 304 U.S. 64, 58 S. Ct. 817, 82 L. Ed. 1188 (1938).

law. In 1964, the United States Supreme Court promulgated the *Sears-Compco* doctrine, undercutting much of the common law of unfair competition by declaring that state prohibitions against copying an article protected by neither a federal patent nor a copyright were inconsistent with federal laws governing patents and copyrights.[210] The broad sweep of federal preemption has been litigated significantly since 1964; one common theme in these cases is that the law of unfair competition may provide additional protection of intellectual property so long as it is consistent with federal law. For instance, if one party copies another party's container or product configuration, the infringing party may be enjoined under common law unfair competition if the copying is likely to confuse the public.[211] However, if only functional aspects of the design are copied, no action can be brought since "all ideas in general circulation [must] be dedicated to the common good unless they are protected by a valid patent."[212]

V. TRADE SECRETS

§ 5.35 Misuse of Trade Secrets

The State of Texas has adopted the Restatement of Torts, section 757(b) (1939) definition of trade secrets, which is

> any formula, pattern, device, or compilation of information which is used in one's business, and which gives [the possessor of the secret] an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.[230]

For example, when Light Demand Corporation starts manufacturing and selling its light dimmer switches, numerous matters can be considered trade secrets, such as their engineering designs, manufacturing techniques, internal calculations for pricing, or customer lists. If Light Demand Corporation discloses the information it is attempting to pro-

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210. *See* Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964).

211. *See* Marshall Mfg. v. Verhalen, 163 S.W.2d 665, 667 (Tex. Civ. App.—Dallas 1942, writ ref'd w.o.m.).

212. Lear, Inc. v. Adkins, 395 U.S. 653, 668, 89 S. Ct. 1902, 23 L. Ed. 2d 610 (1969); *see, e.g.*, Fotomat Corp. v. Photo Drive-Thru, Inc., 425 F. Supp. 693, 706 (D.N.J. 1977).

[Footnotes 213–229 are reserved for expansion.]

230. Luccous v. J.C. Kinley Co., 376 S.W.2d 336, 338 (Tex. 1964).

tect as a trade secret, such as the method of manufacturing, it will not be treated as a trade secret unless it has been protected by confidentiality obligations.[231] That is, to protect the trade secrets it reveals, Light Demand Corporation must create in the person to whom the secret has been revealed a duty not to disclose it further nor to use it in competition with Light Demand Corporation.[232]

The most common method of creating this duty of secrecy is to obtain from each employee express contractual obligations of confidentiality with respect to trade secrets learned in the course of employment. Similarly, a contract expressly creating obligations of confidentiality should be executed whenever trade secrets are disclosed to parties not employed by the corporation. The courts have consistently enforced such express contractual provisions not to disclose the trade secret or confidential information.[233]

While it is relatively easy to enforce a specific contractual provision of confidentiality of trade secret information, Light Demand Corporation is not required to rely solely upon such express agreements to hold the trade secret information in confidence. The corporation need only show that the employee knew or should have known that Light Demand Corporation desired the information to be secret. Upon such a showing, the courts of Texas will generally impose an obligation of confidentiality on the employees not to disclose the trade secret or confidential information of either their current or former employers.[234]

Similarly, corporate officers, directors, and stockholders must act in good faith in their dealings on behalf of the corporation that they represent. They must act with undivided loyalty on behalf of the corporation and for its sole benefit.[235] While the Texas law on corporate opportunity is not voluminous, members of the corporation have a fiduciary obligation not to claim the benefit of a corporate opportunity for themselves. The courts will impose a constructive trust for the benefit of the corporation on anyone who does.[236] Misuse of trade secrets constitutes a breach of fiduciary duty and can result in the imposition of a constructive trust. Normally, such a claim would be ancillary to a claim of unfair competition.

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231. *See* Rimes v. Club Corp. of America, 542 S.W.2d 909, 913–14 (Tex. Civ. App.—Dallas 1976, writ ref'd n.r.e.).

232. *See* Furr's, Inc. v. United Specialty Advertising Co., 338 S.W.2d 762 (Tex. Civ. App.—El Paso 1960, writ ref'd n.r.e.).

233. *See* Elcor Chem. Corp. v. Agri-Sul, Inc., 494 S.W.2d 204, 212 (Tex. Civ. App.—Dallas, 1973, writ ref'd n.r.e.).

234. *See* Hyde Corp. v. Huffines, 158 Tex. 566, 314 S.W.2d 763, 777, *cert. denied*, 358 U.S. 898 (1958); Lamons Metal Gasket Co. v. Traylor, 361 S.W.2d 211, 213 (Tex. Civ. App.—Houston 1962, writ ref'd n.r.e.).

235. *See* International Bankers Life Ins. Co. v. Holloway, 368 S.W.2d 567, 576–77 (Tex. 1963).

236. *See* Deep Oil Dev. Co. v. Cox, 224 S.W.2d 312, 317–18 (Tex. Civ. App.—Fort Worth 1949, writ ref'd n.r.e.).

§ 5.36 Liability for Misuse of Trade Secrets

A little-known and little-used provision of the Texas Penal Code also makes it a crime for an individual to misappropriate and misuse trade secret information. Under this provision, it is a felony of the third degree to knowingly steal or copy a trade secret.[237] This statutory provision resulted from attempts by an employee to sell valuable computer programs of his employer for $5,000,000.[238] Federal statutes and cases also cover the theft of trade secrets, especially in interstate commerce.[239]

Another manufacturer may acquire the information protected as a trade secret through lawful means, such as buying one of Light Demand Corporation's dimmer switches and reverse engineering the switch. However, if the competing manufacturer learns Light Demand Corporation's trade secret through wrongful means, such as from an employee under a duty of secrecy to Light Demand Corporation, that company can be held liable and enjoined from further use of the trade secret.[240] Neither express nor implied obligations of confidentiality, however, will render a competing company liable for utilizing general knowledge, skills, or experience acquired by a former employee during employment with Light Demand Corporation.[241]

In many respects, trade secret protection resembles patent protection. The major difference is that trade secrets are never publicly disclosed but may be used if the knowledge is legally acquired. Presumably, if no one lawfully learns the trade secret and it remains commercially valuable, the secret will be protected indefinitely. This difference should be carefully evaluated in considering whether to seek patent protection. Notably, patentability of an invention does not preclude trade secret protection of that invention under the *Sears-Compco* preemption doctrine,[242] provided that the trade secret information is not disclosed in any patent for the invention.[243]

After concluding that a trade secret exists and that it is being wrongfully used by another, the courts in Texas are among the most aggressive in the nation in protecting a trade secret. The courts will grant relief for violation of trade secrets unless some compelling reason of

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237. TEX. PENAL CODE ANN. § 31.05 (1974).

238. *See* Hancock v. State, 402 S.W.2d 906 (Tex. Crim. App. 1966), *denial of petition for habeas corpus aff'd sub nom.* Hancock v. Decker, 379 F.2d 552 (5th Cir. 1967).

239. 18 U.S.C.A. § 1905 (West Supp. 1982), §§ 2314, 2315 (1970).

240. *See, e.g.,* Jeter v. Associated Rack Corp., 607 S.W.2d 272, 276 (Tex. Civ. App.—Texarkana 1980, writ ref'd n.r.e.); Elcor Chem. Corp. v. Agri-Sul, Inc., 494 S.W.2d 204, 212 (Tex. Civ. App.—Dallas 1973, writ ref'd n.r.e.).

241. *See* Auto Wax Co. v. Byrd, 599 S.W.2d 110, 112 (Tex. Civ. App.—Dallas 1980, no writ).

242. *See* text accompanying note 210 *supra*, § 5.29.

243. *See, e.g.,* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 493, 94 S. Ct. 1879, 40 L. Ed. 2d 315 (1974); Hyde Corp. v. Huffines, 158 Tex. 566, 314 S.W.2d 763, 770, *cert. denied,* 358 U.S. 898 (1958); Welex Jet Servs. v. Owen, 325 S.W.2d 856, 858 (Tex. Civ. App.—Fort Worth 1959, writ ref'd n.r.e.).

public policy or impracticality justifies withholding it.[244] If the trade secret information is obtained wrongfully, as it normally is, the complaining party can obtain monetary damages if it produces sufficient evidence to sustain the award.[245] Proof of monetary damages may include the cost of research and development of the trade secret information, lost profits, and/or profits of the party that misappropriated the trade secret information.

Injunctive relief can also be obtained against further use of the trade secret information; however, the courts vary on the duration of the injunctive relief. If the information is wrongfully obtained, the injunctive relief may extend beyond a headstart period over competitors and even beyond the date of a patent covering the same device.[246] On occasion, the award of damages may be insufficient to fully compensate the owner of the trade secrets for the injury sustained. This insufficiency is considered in awarding the injunctive relief.[247]

VI. Summary

§ 5.40 Illustrative Overview

The example of Light Demand Corporation will help to summarize. The particular design and configuration of the Light Demand switches may be protected by patents obtained by Light Demand Corporation; however, the general concept, which is old in the art, cannot be protected. This limitation is normal for most new inventions that are improvements over prior devices. The first step is to determine if a device is patentable; the next step is to determine the degree to which patent protection and trade secret protection must be extended, depending on how much the trade secrets would be revealed either in the patent or on the manufacturing and sale of the product.

To determine what trademarks to utilize, Light Demand Corporation would conduct a trademark search and analyze marketability. Thereafter, the corporation should use the marks in commerce then file applications to register them with the Texas Secretary of State and/or the United States Patent and Trademark Office. Certificates of registration greatly reduce the burden of proof in the event of infringement because

244. *See* K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv., 158 Tex. 594, 314 S.W.2d 782, 790, *cert. denied*, 358 U.S. 898 (1958).

245. *See* Elcor Chem. Corp. v. Agri-Sul, Inc., 494 S.W.2d 204, 212 (Tex. Civ. App.—Dallas 1973, writ ref'd n.r.e.).

246. *See* Hyde Corp. v. Huffines, 158 Tex. 566, 314 S.W.2d 763, 780, *cert. denied*, 358 U.S. 898 (1958).

247. *See* Atlas Bradford Co. v. Tuboscope, 378 S.W.2d 147, 149 (Tex. Civ. App.—Waco 1964, no writ).

the registrant does not have to prove secondary meaning. Many different factors determine the likelihood of confusion by the purchasing public—the test for trademark infringement.

A copyright notice should be put on all original items created by Light Demand Corporation, such as advertising, manuals, and other items released to the public. On the more important of those items, copyright registration should be obtained immediately. On others, Light Demand Corporation can wait until infringement occurs, obtain the copyright registration, and then file suit for copyright infringement.

If any competitor attempts to pass off its product as an imitation of Light Demand Corporation's, a claim of unfair competition could be made. This claim may include appropriation of trade secrets, trademark infringement, or many other items, any one of which would enable competitors to unfairly benefit from appropriating creations, discoveries, or goodwill not their own. While competition in the marketplace cannot be prevented, many aspects of unfair competition law can protect in some measure the fruits of an individual's intellectual labors.