

# INTELLECTUAL PROPERTY BASICS

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# **TABLE OF CONTENTS**

<b>I. INTRODUCTION</b>	<b>1</b>
<b>II. TRADEMARKS</b> .....	<b>1</b>
Rule #1: BE SURE YOU HAVE TRADEMARK PRIORITY.....	1
Rule #2: MERELY DESCRIPTIVE MARKS ARE LOSERS.....	3
Rule #3: IF IT’S LIKELY TO CONFUSE, IT’S TOO CLOSE.....	6
<b>III. COPYRIGHTS</b> .....	<b>7</b>
Rule #4: IF IT’S NOT PRIMARILY PHYSICALLY FUNCTIONAL, IT’S COPYRIGHTED. ....	7
Rule #5: COPYRIGHT PROTECTION IS EASY AND INEXPENSIVE. ....	10
Rule #6: COPYRIGHTS ASSIGNMENTS MUST BE IN WRITING.....	11
<b>IV. PATENTS</b> .....	<b>12</b>
Rule #7: IMPROVEMENTS ARE PATENTABLE.....	12
Rule #8: WAITING TO FILE – THE GRIM REAPER.....	15
Rule #9: DO NOT WRITE YOUR OWN APPLICATION.....	18
<b>V. TRADE SECRETS</b> .....	<b>21</b>
Rule #10: IT IS NOT A SECRET UNLESS IT IS SECRET.....	21
Rule #11: EMPLOYEES LEAVE.....	22
<b>VI. KEEP ATTORNEYS FROM OWNING YOUR BUSINESS</b> .....	<b>24</b>
Rule #12: IF YOU WANT PEACE, PREPARE FOR WAR.....	24
<b>VII. CONCLUSION</b> .....	<b>25</b>
<b>END NOTES</b> .....	<b>28</b>

## I.

### INTRODUCTION

Business law is based on common sense. You can buy or sell breakfast, a toaster or car repair without a lawyer. Intellectual Property<sup>1</sup> (“IP”) is different. Common sense does not always apply to IP. This is dangerous because IP is often a valuable competitive advantage, *e.g.*, McDonald’s trademarked name and golden arches, Coca-Cola’s secret formula, Microsoft’s copyrighted software, IBM’s patents.

Not creating valuable IP is inexcusable because often only minor steps are required. The best foundation for inexpensively creating valuable IP is: (1) **identify** your existing and desired IP; (2) **learn the Rules** applicable to it; and (3) **pretend you are on the witness stand** using the Rules to prove you own it. This simple drill opens your eyes to an important universe and teaches you how to win.

**IF YOU DO NOT KNOW THE RULES, THE HARDER YOU WORK, THE MORE YOU WASTE.**

## II.

### TRADEMARKS

<b>Rule #1: BE SURE YOU HAVE TRADEMARK PRIORITY.</b>
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1. **Trademark Rights.** A trademark is a term you use to identify and distinguish your goods and services from those of competing businesses.<sup>2</sup> **The only ways to acquire the exclusive right to use a mark are to (a) be the first to properly use it in your trade area<sup>3</sup>, or (b) file a federal trademark application that issues as a registration.<sup>4</sup>** Neither incorporation nor assumed registration protect you against others using your business’ name or even give you the right to use it in public.<sup>5</sup>

**Office of the Secretary of State**  
**CERTIFICATE OF INCORPORATION**  
**OF**

Your Company's Name, Inc.  
Filing Number: 123456789

The undersigned, as Secretary of State of Texas, hereby certifies that Articles of Incorporation for the above named corporation have been received in this office and have been found to conform to law.

Accordingly, the undersigned, as Secretary of State, and by virtue of the authority vested in the Secretary by law, hereby issues this Certificate of Incorporation.

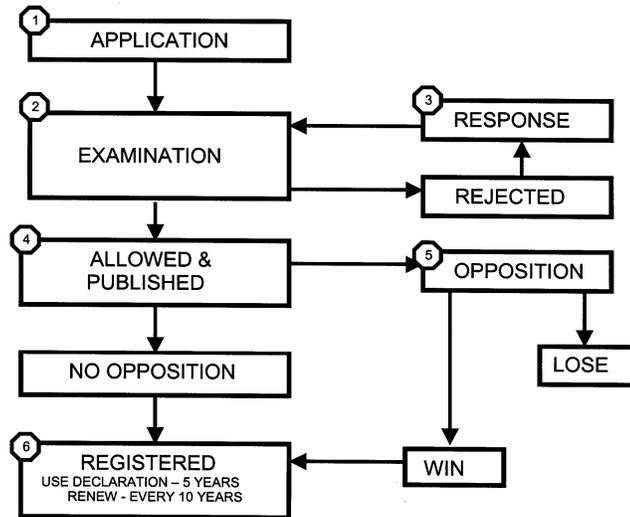
Issuance of this Certificate of Incorporation does not authorize the use of a name in this state in violation of the rights of another under the federal Trademark Act of 1946, the Texas trademark law, the Assumed Business or Professional Name Act, or the common law.

**[Most people do not read the third paragraph]**

2. **Trademark Priority.** To determine who has “trademark priority,” you have to apply your facts to the “**Knowing Junior Trademark Users Lose**” Rule.<sup>6</sup> A Junior User knows of the Senior User’s use if either: (1) actual notice: The Junior User saw the Senior User’s<sup>7</sup> use<sup>8</sup>, or (2) constructive notice: The Junior User began after the Senior User filed its federal trademark application.<sup>9</sup> This is the implied-by-law notice the world has that you own your house if you file your deed in the county deed records. **Adopting a trademark without checking to see if someone else already owns it, is like buying a house without checking the deed records.**

3. **Trademark Registration.** A federal trademark registration gives an exclusive right to use the mark throughout the U.S. against later users of the same or confusingly similar mark for similar goods or services.<sup>10</sup>

## TRADEMARK REGISTRATION PROCESS<sup>11</sup>



Experience is required to overcome a trademark examiner's rejections<sup>12</sup> and obtain as useful a registration as possible.<sup>13</sup> A Texas trademark registration gives similar rights in Texas.<sup>14</sup>

4. **Concurrent Use.** If the Senior User does not obtain a federal registration, an innocent Junior User has exclusive rights to its trade area and can keep the Senior User out.<sup>15</sup>

5. **Foreign Countries.** Every country has its own trademark system. It is common for pirates to register your marks in foreign countries and keep you out. The only way to prevent this is to register in important countries before anyone else.<sup>16</sup>

6. **Discussion:** You should (1) make other people knowing junior trademark users - by federally and internationally registering your important marks, and (2) never be a knowing junior trademark user yourself - by searching before you adopt a new mark.<sup>17</sup>

### **Rule #2: MERELY DESCRIPTIVE MARKS ARE LOSERS.**

1. **Trademark.** A word, symbol, color, sound, smell, slogan<sup>18</sup>. . . anything that identifies a business' goods or services and distinguishes them from competitive goods and services.<sup>19</sup>

a. **Generic terms** define the good or service.<sup>20</sup> They are not protectable and can be used by anyone, even knowing junior users.<sup>21</sup> Do not adopt generic terms to identify your

goods or services. Miller’s “Let’s sell ‘em diluted beer” gamble succeeded when its LITE brand created a low-calorie beer market. That success was largely wasted because LITE was generic and unprotectable.<sup>22</sup>

**b. Descriptive terms** describe the good or service.<sup>23</sup> They are only protectable if the public uses the term to distinguish your goods and services from those of your competitors rather than merely describe your goods or services.<sup>24</sup> Protectability depends on each jury’s decision. VISION CENTER<sup>25</sup> optical clinic and BEER NUTS<sup>26</sup> salted nuts were held unprotectable. STEAK AND BREW<sup>27</sup> restaurant and HONEY ROAST<sup>28</sup> nuts roasted in honey were held protectable.

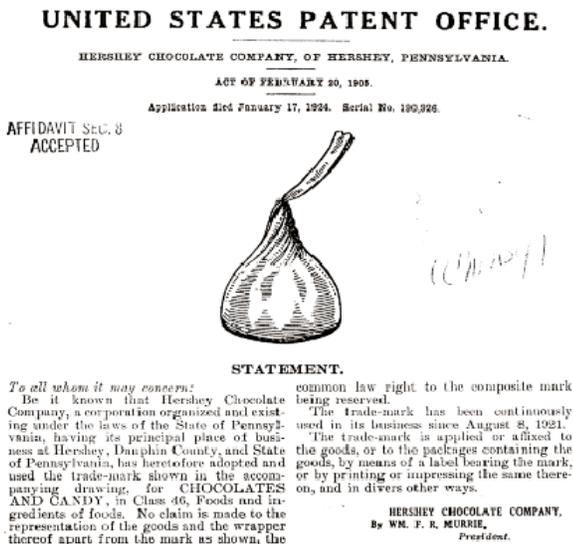
**c. Suggestive terms** suggest a quality or characteristic. They are protectable and can make your marketing more effective. Examples: DIE HARD batteries, SURE deodorant, MUSTANG automobile.

**d. Arbitrary or Fanciful terms** have no relationship to the good or service. They are very protectable. Examples: CAMEL cigarettes, APPLE computers, EXXON gasoline.<sup>29</sup> If you have the resources to create a favorable public impression through marketing and favorable public contacts, these terms give the most security and freedom to create public perceptions.

<u>STRENGTH</u>	<u>MARK</u>	<u>GOODS</u>	<u>KIND OF MARK</u>	<u>DISTINCTIVENESS</u>
Strong	KODAK APPLE SURE	Copiers Computers Deodorant	Fanciful Arbitrary Suggestive	Inherently distinctive and protectable.
Weak	CHAMPION L.A. GEAR STEAK AND BREW TOMMY’S	Sparkplugs Shoes Restaurants  Anything	Laudatory Geographic Descriptive  Personal name	Must prove “secondary meaning” to be protectable.

<u>STRENGTH</u>	<u>MARK</u>	<u>GOODS</u>	<u>KIND OF MARK</u>	<u>DISTINCTIVENESS</u>
Zero	LITE DISCOUNT MUFFLERS SUPER GLUE	Beer  Mufflers Glue	Generic  Generic Generic	Do not distinguish one maker from another. <u>Never</u> protectable.

e. **Trade Dress.** Trade dress<sup>30</sup> is any nonfunctional<sup>31</sup> feature that identifies the good or service with you.<sup>32</sup> Coca Cola's bottle, Taco Cabana's restaurant design, and Hershey's KISS chocolate shape make those companies more profitable. Trade dress may be protected with a trade dress registration.<sup>33</sup>



**Could you make more money selling chocolate with or without this trade dress registration?**

f. **Domain Names.** A federal trademark registration is critical for protecting a domain name.<sup>34</sup>

**2. Choosing and Using a Mark:**

a. **Safe Marks.** To lessen the odds of being a Knowing Junior Trademark User who loses (see Rule #1), proposed marks should be searched against existing marks registered or used by others.

b. **Protectable Marks.** You can only protect your business, product, and service reputations if you chose protectable marks to represent them to the public. The problem

with descriptive terms is that others have and will use them in confusingly similar ways so you may have to pay lawyers to fight about the term.<sup>35</sup> You are most likely to protect your reputation and avoid expensive litigation if you select suggestive and arbitrary marks.

c. **Marketable Marks.** A good mark gets more of the right kinds of potential consumers to try your business. A mark that gets five percent more of the right potential customers to try your business may improve your profits by fifty percent.<sup>36</sup> (Do the math on a compounded 5% increase in sales.)

Businesses often select familiar marks similar to others in their line of commerce – and then stay lost in a crowd of peddlers.<sup>37</sup> **What gets sales is uniqueness.** You should (1) ruthlessly identify your best target audience, (2) determine what it wants, (3) select one or two of these wants to market to, (4) select a theme or story that creates an emotional link between the chosen wants and your product, and (5) then select a mark that helps sell your story and makes it memorable to the target audience.<sup>38</sup> **What one thing do you want the target audience to tell others about you?**<sup>39</sup> (A fisherman goes to the one best part of the lake and uses his one best lure.<sup>40</sup>) In sum, create and pitch uniqueness to your best target audience with a mark that is safe, protectable and has favorable connotations.<sup>41</sup>

d. **Proper Trademark Use.** Tell the world the mark is yours by (1) following it with “brand,” or “<sup>TM</sup>” (® or if federally registered); (2) using it as an adjective and not a noun; and (3) making it distinctive, such as with larger typeface or a different color. Examples: Correct– COCA-COLA® soft drink, HOMEMADE<sup>TM</sup> bread; Wrong – Drink Coca Cola, Homemade bread is good.<sup>42</sup>

<b>Rule #3: IF IT'S LIKELY TO CONFUSE, IT'S TOO CLOSE</b>
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1. **Infringement.** A trademark Plaintiff must prove (1) **priority**, (2) the mark is **protectable**, and (3) Defendant's mark is **likely to confuse** the relevant public into thinking

Defendant's goods or services are affiliated with Plaintiff.<sup>43</sup> The Defendant may still win by proving a defense.<sup>44</sup>

2. **"The" Jury Question.** Is your mark too close to the competitor's mark – or vice versa? Only a jury can tell us for sure.

### **JURY QUESTION**

Do you find from a preponderance of the evidence that potential customers are likely to be confused between Plaintiff's mark ABC and Defendant's mark AQC?

Answer: "Yes" or "No": \_\_\_\_\_

### **OTHER TRADEMARK INFORMATION**

Infringement may result in damages,<sup>45</sup> an injunction, attorney's fees<sup>46</sup>, statutory penalties<sup>47</sup> and criminal liability.<sup>48</sup> Anti-dilution statutes protect marks from having their distinctive quality diluted by noncompetitive users.<sup>49</sup> Do not infringe another's right of publicity,<sup>50</sup> right of privacy,<sup>51</sup> or cause confusion or mistake as to goods or services<sup>52</sup>, permit others to use your mark<sup>53</sup> or fail to timely record your purchase of a registered trademark.<sup>54</sup> To stop infringing imports, register your mark with the U.S. Customs Service.<sup>55</sup>

## **III.**

### **COPYRIGHTS**

**Rule #4: IF IT'S NOT PRIMARILY PHYSICALLY FUNCTIONAL, IT'S COPYRIGHTED.**

1. **Copyrightable Works.** Original creative expressions are copyrightable,<sup>56</sup> e.g. buildings, customer lists, drawings, software, advertisements, the non-functional shape of a product or container,<sup>57</sup> operations manuals, correspondence,<sup>58</sup> website content, etc.

2. **Copyright's Limits.** Copyright protects form, not content.<sup>59</sup> Facts,<sup>60</sup> business forms,<sup>61</sup> mere collections of facts without "some minimal level of creativity,"<sup>62</sup> works that are

solely utilitarian,<sup>63</sup> bare bones recipes,<sup>64</sup> and works that are the only possible expression of an idea or information<sup>65</sup> are not copyrightable.

3. **Duration.** Life plus 70 years if the author is an individual;<sup>66</sup> the earlier of 95 years from publication or 120 years from creation for works created for hire, *i.e.*, created by an employee within his or her scope of employment.<sup>67</sup>

**COPYRIGHT DURATION**

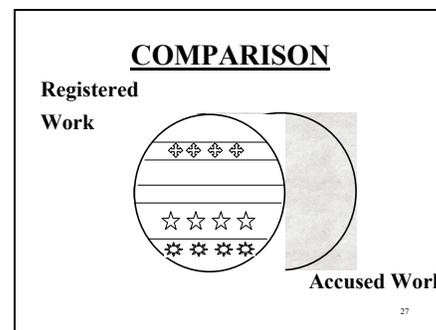
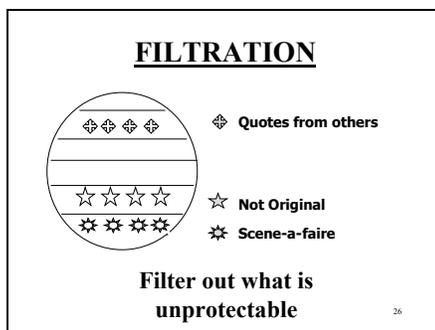
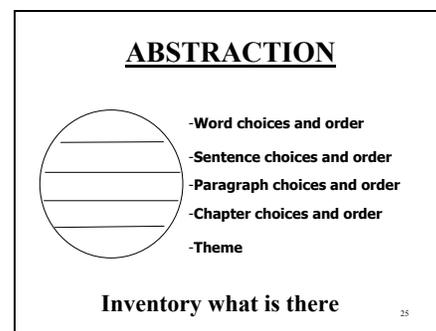
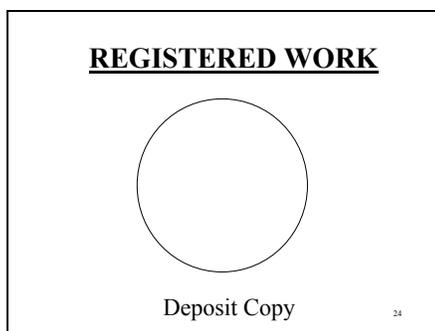
Dates	Term
Published or registered before 1923	Public domain
Published or registered 1923-1963 and not renewed	Public domain
Published with © notice or registered 1923-1963 and renewed	95 years from when secured (no registration benefits if not renewed)
Published with © notice or registered 1964-1977	95 years from when secured (but no registration benefits unless renewed)
Published without © notice pre-1978	Public domain
Created pre-1978, but not published or registered	Life plus 70 years and, if published before 2003, at least through 2047
Created after 1977 and published without © notice before 3/1/89	Public domain unless reclaimed, e.g. registration within five years, etc.
Created after 1977 and published with © notice before 3/1/89  Created after 1977 and not published until after 3/1/89	Life plus 70 years (but if made for hire, earlier of 95 years from publication or 120 years from creation)

Lots of exceptions<sup>68</sup>. Foreign works are different.<sup>69</sup>

\*Renewal status – [www.copyright.gov/cirs/circ15.html](http://www.copyright.gov/cirs/circ15.html).

4. **Infringement.** Defendant infringes<sup>70</sup> if (1) Plaintiff's work is protectable,<sup>71</sup> (2) Defendant copied Plaintiff's work,<sup>72</sup> and (3) Defendant's work is substantially similar to the protectable part of Plaintiff's work.<sup>73</sup> The Defendant still may win by proving a defense.<sup>74</sup>

5. **Fair Use.** The Fair Use doctrine gives a right to copy in the areas of criticism, news reporting, parody teaching, etc. Factors considered are (1) the purpose and character of the use, (2) the nature of the copyrighted work, (3) the amount and substantiality of the portion used, and (4) the effect on the market for or the copyrighted work.<sup>75</sup>



**INFRINGEMENT JURY QUESTION**

Do you find from a preponderance of the evidence that the [accused work] is substantially similar to the [registered work]?

Answer "Yes" or "No": \_\_\_\_\_.

28

**FAIR USE JURY QUESTION**

Do you find from a preponderance of the evidence that Defendant's copying of [the registered work] was a fair use?

Answer "Yes" or "No": \_\_\_\_\_.

30

6. **Derivative Work.** Copyright rights in a single work are many and divisible.<sup>76</sup> A derivative work is a new work that adds something copyrightable to a prior work.<sup>77</sup> It is independently copyrightable, but typically infringes the prior work. If, for example, you revise

this paper, I cannot copy your revision without infringing your copyright.<sup>78</sup> Of course, your derivative work infringes my copyright.

7. **DMCA.** The Digital Millennium Copyright Act (“DMCA”) makes (1) circumventing technological means of preventing copying, and (2) removing or altering copyright management information (ex: removing “© 1987-2005 Miller”) an unlawful and criminal act.<sup>79</sup>

**Rule #5: COPYRIGHT PROTECTION IS EASY AND INEXPENSIVE.**

1. **Three Levels of Protection:**

a. **Level One: Copyrighted.** Copyrightable works are **copyrighted** as soon as they are fixed in tangible form.<sup>80</sup> **Your copyright right exists immediately without registering the work, putting a copyright notice on it, or doing anything special.**<sup>81</sup>

b. **Level Two: Notice.** You can immediately put a copyright notice on any new work without a copyright registration. Proper notice lists (1) notice of copyright<sup>82</sup>; (2) year first published<sup>83</sup>; and (3) claimant’s name.<sup>84</sup> Example: “© 1987-2005, Mark Miller.”

c. **Level Three: Registration.** Registration is needed before suing an infringer.<sup>85</sup> Registration within three months of first publication or before the infringer begins copying is needed to recover attorneys fees and statutory damages.<sup>86</sup>

<b>VALUE OF TIMELY COPYRIGHT REGISTRATION</b>		
<b>REMEDY</b>	<b>No Prior Registration<sup>87</sup></b>	<b>Prior Registration</b>
Owner’s actual damages, plus infringer’s profits	<b>X</b>	<b>X</b>
Injunction	<b>X</b>	<b>X</b>
Defendant might recover attorney’s fees if it wins	<b>X</b>	<b>X</b>
Statutory damages of up to \$150,000 per each “infringement”		<b>X</b>

Plaintiff might recover attorney's fees if it wins		<b>X</b>
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Since copyright suits must be brought in federal court (expensive!), a timely copyright registration is often needed to make it practical to sue for copyright infringement.

2. **Discussion.** If there is a reasonable chance someone will copy your work, invest a \$30.00 filing fee in a copyright registration.<sup>88</sup> Consult a copyright lawyer if your copyright right is important because an improper application can void the copyright.<sup>89</sup>

**Rule #6: COPYRIGHTS ASSIGNMENTS MUST BE IN WRITING.**

1. **Three Kinds of Copyright Owners:**

a. **Author.** The author owns the copyright right.<sup>90</sup> The authors of a joint work are co-owners.<sup>91</sup>

b. **Work for Hire.** The employer is the author if the work is created by (1) an “employee,”<sup>92</sup> (2) working within his or her scope of employment.<sup>93</sup>

c. **Written Assignment.** The Copyright Act decrees that “A transfer of copyright ownership . . . is not valid unless an instrument of conveyance . . . is in writing and signed by the owner of the [copyright] rights conveyed . . . .”<sup>94</sup> When you buy a Steven King novel, you can read, use, or resell it, but not copy it.<sup>95</sup> The same rule applies to a painting, advertising written by an agency, software written by an independent contractor, etc.<sup>96</sup>

2. **Discussion:** Everyone connected with the creation of copyrightable works – and every business has lots of them – should sign a copyright assignment.<sup>97</sup>

Assignor hereby sells and assigns to Purchaser any and all right, title and interest in all the works identified below, throughout the world and forever, including but not limited to any and all media that may now or ever exist, whether or not currently contemplated; intangible, moral, copyright rights, etc.; renewals; extensions; pre-existing and future causes of action; rights to reproduce, prepare derivative works therefrom, distribute copies by sale, transfer, rental, etc.; perform and to display. Assignor warrants that

Assignor is the sole author of the works and that exercise of the transferred rights will not infringe any third party's rights.

### **OTHER COPYRIGHT INFORMATION**

Copyrights are protected worldwide.<sup>98</sup> If you buy a registered copyright right you must quickly record the transfer.<sup>99</sup> Copyright assignments have many special rules.<sup>100</sup> An improperly worded license can make the copyright right unenforceable.<sup>101</sup> Some copying and misappropriations may be unlawful even if the work was not copyrightable.<sup>102</sup> "Moral rights" apply to some visual arts.<sup>103</sup> Some copyright infringements are crimes.<sup>104</sup> Failure to timely contest another's claim of authorship may bar your claim.<sup>105</sup>

## **IV.**

### **PATENTS**

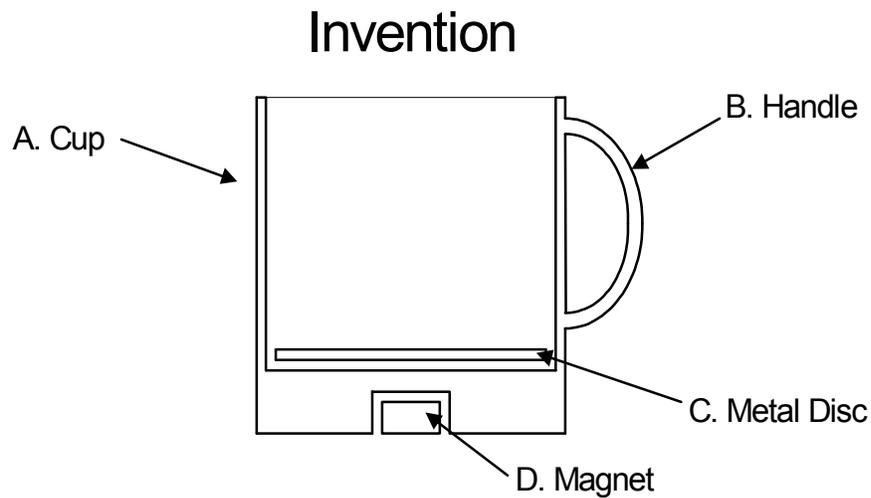
<b>Rule #7: IMPROVEMENTS ARE PATENTABLE.</b>
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1. **Patentable.** An invention only needs to be (1) **useful**,<sup>106</sup> (2) **novel**,<sup>107</sup> and (3) **non-obvious**<sup>108</sup> to be patentable.<sup>109</sup> It does not need to come in a "flash of genius." An incremental improvement or new combination of off-the-shelf components arrived at by trial and error or methodical research may be patentable.<sup>110</sup>

2. **Types of Patents.** Utility patents protect processes, machines, articles, compositions, etc.,<sup>111</sup> for 20 years.<sup>112</sup> Design patents protect an article's ornamental characteristics<sup>113</sup> for 14 years.<sup>114</sup> Business method patents protect methods of doing practically anything.<sup>115</sup> – How to (1) run Priceline.com's reverse auction,<sup>116</sup> sell magazine subscriptions,<sup>117</sup> get customers to "round up" purchases to the nearest dollar.<sup>118</sup> **Businesses often waste a valuable asset - the opportunity to prevent competitors from using their new anything - by not patenting it.**

3. **Patentability Analysis.** You must compare your invention to the relevant prior art to determine if it warrants a patent application. **You can do free preliminary searches at [www.uspto.gov](http://www.uspto.gov).**<sup>119</sup> The most reliable searches are done by professional searchers and evaluated by a patent attorney.

Assume your invention is a cup (A) with a handle (B), a removable metal disc that can be dropped inside to heat its contents (C), and a magnet to hold the disc (D).



Patentability Operation	Invention Elements	Description
	ABCD	Your invented combination of elements
<b>Novelty subtraction</b>	– A – AB	Old elements and combinations are not patentable
Leaves	ABC ABCD	Combinations <u>novel</u> to your invention
<b>Obviousness subtraction</b>	– ABC	<u>Obvious</u> combinations are not patentable
Leaves	ABCD	Combination that might be patentable

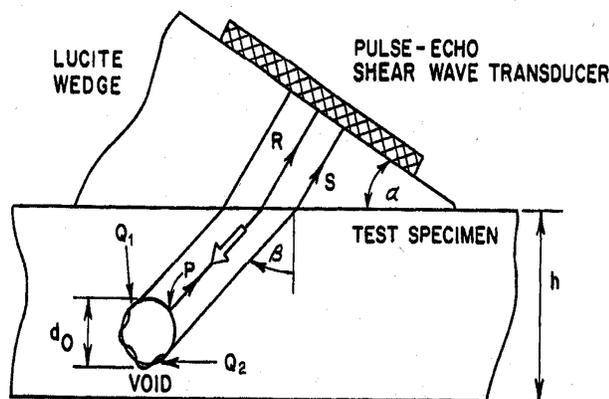
4. **Infringement Analysis.** An accused device does not infringe<sup>120</sup> unless every element in one of the patent's claims,<sup>121</sup> or its equivalent,<sup>122</sup> is found in the accused device.

Issued Patent Claim	The Claim's Elements	Accused Devices	Patent Infringement	Claim Value
1	A	A AB ABC	Yes Yes Yes	High Value
2	AB	A AB ABC	No Yes Yes	Moderate Value
3	ABC	A AB ABC	No No Yes	Low Value
4	ABC . . . . Z	A AB ABC	No No No	No Value

**Actual Claim**

U.S. Patent Nov. 10, 1981 Sheet 3 of 6 4,299,128

**FIG. 5**



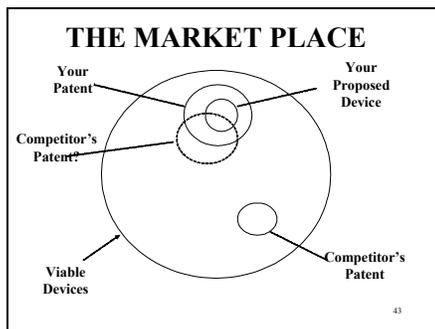
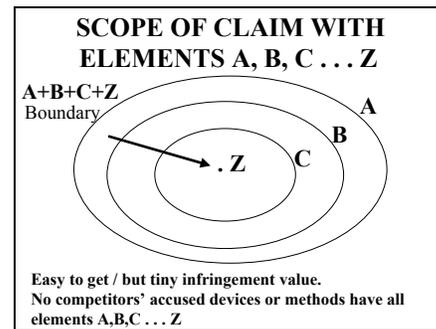
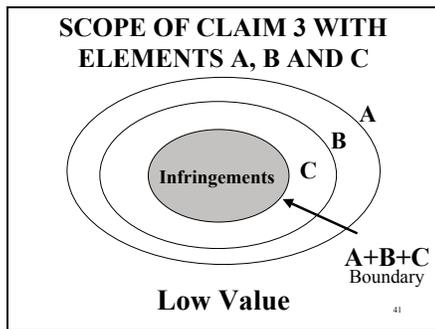
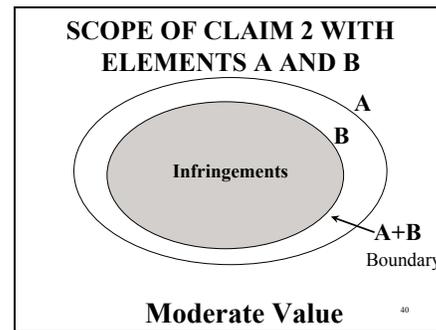
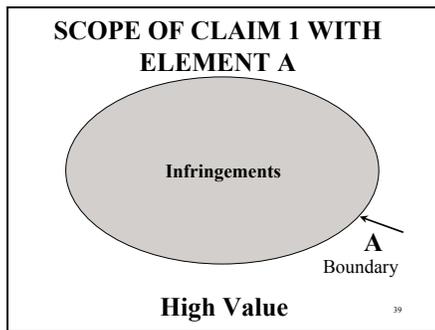
9. An ultrasonic test method for sizing an anomaly within a test body comprising the steps of:

- (a) transmitting by means of a transducer an ultrasonic indicent wave within said body to interact with said anomaly and create at least one reflected wave and at least one satellite wave;
- (b) receiving by means of a transducer a portion of said reflected wave and a portion of said satellite wave;

- (c) resolving by means of a resolution unit said received waves into a reflected wave component and a satellite wave component;
- (d) measuring the difference between the reception time for said reflected wave component and the reception time for said satellite wave component to produce a delay time; and
- (e) sizing said anomaly by using said delay time as a proportional indicator of anomaly size.

An accused method must include all of steps (a) through (e) to infringe this claim. An accused product infringes a design patent if it is “substantially similar” to the patented design.

5. **Value Analysis.** These tables show that the more elements in your invention, the more likely it is patentable, **however**, the more limitations needed to make it patentable, the less likely your patent will prevent competition. Getting a valuable patent that successfully excludes competition is a complex dance with the patent examiner with this contradiction in mind.



**PATENTABILITY VS. INFRINGEMENT**

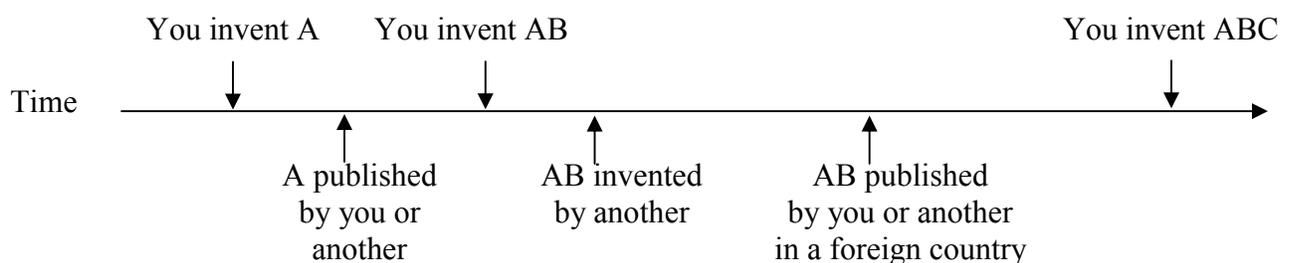
1. Everything new is patentable (almost) if you add enough elements to the patent claim.
2. But the more elements needed to get a patent the less value the patent has because fewer accused devices and methods infringe.

**Rule #8: WAITING TO FILE – THE GRIM REAPER.**

1. **Old Law vs. New Law.** The America Invents Act (“AIA”) changes U.S. patent law from “first-to-invent” to “first-to-file” effective March 16, 2013. The AIA’s first-to-file amendments are briefly addressed in this endnote.<sup>123</sup>

2. **Priority and the One-Year Bar.** The first party to reduce the invention to practice, *i.e.*, physically make the invention or file a patent application on it,<sup>124</sup> wins an invention priority contest unless another party both conceived the invention and was continuously diligent<sup>125</sup> in reducing it to practice since prior to the first party’s reduction to practice.<sup>126</sup> **Being first is only helpful if you can prove it.** (Conception and reduction to practice can only be proved by corroborated evidence, *i.e.* confirmed by someone other than the inventors.<sup>127</sup> Don’t waste your efforts due to poor documentation!) However, a patent application cannot be filed after “the invention was [1] patented or described in a printed publication in this country or [2] in public use or [3] on sale in this [or a foreign] country, more than one year prior to the date of the application for patent . . . .”<sup>128</sup>

Intervening events may diminish the scope of what you can patent or prevent you from receiving a patent, so you should file as soon as you decide.<sup>129</sup>

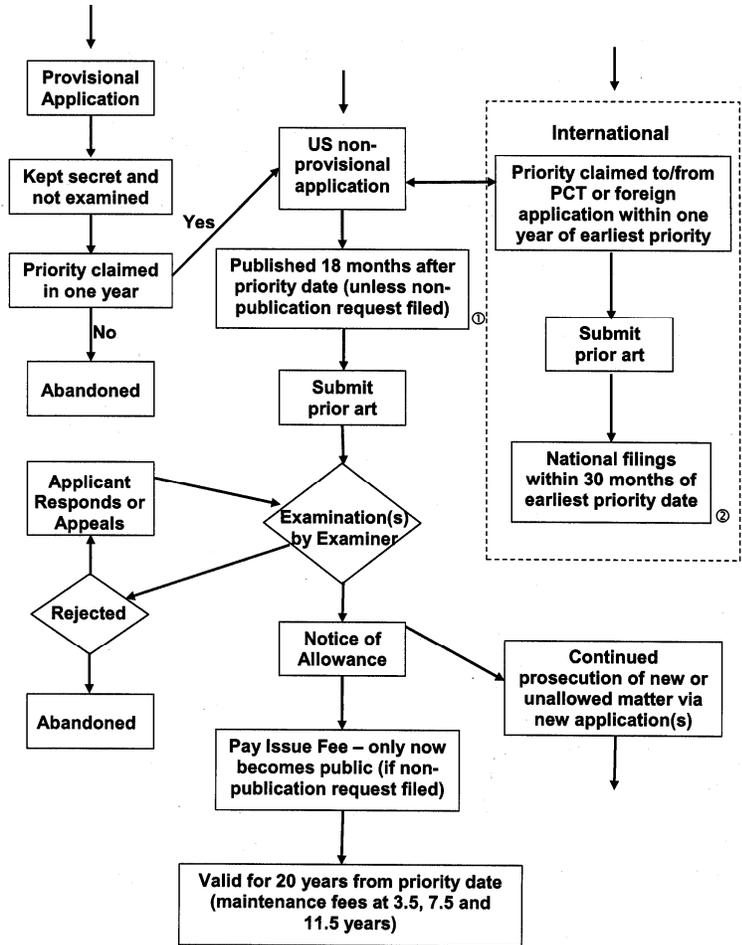


3. **Foreign Patents.** Each country’s patents are only effective in that country; a U.S. patent is good only in the U.S. Most foreign countries have an “**absolute novelty**” requirement, *i.e.*, any commercialization or public disclosure of the invention anywhere before filing the application bars it,<sup>130</sup> - rather than the U.S.’s one-year grace period.

4. **Provisional Application.** A provisional patent application (“provisional”) is an informal placeholder filing that preserves an invention’s priority date for one year.<sup>131</sup> **It is cheap,** lets you delay deciding whether to file a formal (expensive) application while you test the market or find money, lets you immediately mark your invention “patent pending,”<sup>132</sup> goes unread to a PTO warehouse instead of being examined, and is secret. It is automatically abandoned unless a utility application is filed within the year. **It is a dangerous trap** for the unwary as it only provides priority to the extent it properly describes the invention.<sup>133</sup> This business decision is not the patent attorney’s decision.

5. **Cost.** It typically costs about \$5,000 to \$15,000, to file a utility patent application,<sup>134</sup> plus an additional \$2,000 to \$5,000 through issuance. It typically costs about \$1,000 to obtain a design patent. While about 65% of all applications issue as patents, about 2,000 a week, many are not valuable because they do not prevent competition.

#### U.S. PATENT APPLICATION PROCESS<sup>135</sup>



Average U.S. application pendency: 2.5 years.

6. **“Patent Pending”**. Patent applications typically pend one to three years from filing to issuance.<sup>136</sup> The application is secret until it issues if you timely file notice that you will not seek international patent protection; otherwise, it is published in 18 months.<sup>137</sup> Marking your product “patent pending” may itself delay competition because competitors cannot design around your patent if they cannot see it.<sup>138</sup> Sometimes the head-start that “patent pending” gives you is valuable. A published application gives limited provisional rights against infringement.<sup>139</sup> You cannot sue for infringement until the patent issues.<sup>140</sup>

**Rule #9: DO NOT WRITE YOUR OWN APPLICATION.**

1. **Your Patent Application.** In exchange for the government’s grant of the patent’s claims, the patentee trades disclosure of the invention which (1) teaches one skilled in the art to make and use the invention without undue experimentation (“**enablement**”),<sup>141</sup> (2) discloses the preferred embodiment (“**best mode**”),<sup>142</sup> and (3) discloses all information material to patentability (“**duty of candor**”).<sup>143</sup> The U.S. Supreme Court recognizes that the “specification and claims of a patent, particularly if the invention be at all complicated, constitute one of the most difficult legal instruments to draw with accuracy.”<sup>144</sup> Patents written by inventors are usually practically worthless.<sup>145</sup>

2. **Inventorship.** Only persons who conceive the claimed invention are patentees.<sup>146</sup> If two or more people contribute to it, they may be joint patentees.<sup>147</sup> **Being first is only helpful if you can prove it.** An inventor’s uncorroborated testimony is inadmissible. (Don’t waste your efforts due to poor documentation!) An employee typically owns his invention unless he was hired to invent or has agreed to assign it.<sup>148</sup> All employees should sign a short form agreement assigning all inventions to the company.

$\text{Inventorship} = C_1 + C_2 + C_3 + C_4$ <p><math>C_1 = \text{Claimed Invention}; C_2 = \text{Conception};</math> <math>C_3 = \text{Corroboration}; C_4 = \text{Collaboration}</math><sup>149</sup></p>
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3. **Smart Inventors.** (1) Keep good records, including witnessed lab notebooks,<sup>150</sup> dated photos, receipts, etc.; (2) build prototypes<sup>151</sup>; (3) do not talk about the invention except to persons who have signed a confidentiality agreement; (4) search [www.uspto.gov](http://www.uspto.gov) and the internet to determine what is possibly patentable; (5) continually work on “who is going to pay me?”<sup>152</sup>; (6) find a good patent attorney and keep asking “What can I do to help keep my costs down?”; (7) keep filing improved robust provisional applications.

4. **Different Situations:** Individual inventors who are not in the same line of business as their invention rarely successfully commercialize their invention without licensing it.<sup>153</sup> You can **use the one-year grace period** to decide whether to invest in a formal application by filing an inexpensive provisional and then offering a few units for sale, on consignment if necessary,<sup>154</sup> to see if it sells.

In contrast, if a business will spend \$1,000,000 to make, market and sell something that has a commercially-important improvement, all possible patent advantages should be promptly applied for. Successful businesses convert ideas into profit making patented assets.<sup>155</sup>

<b>Company</b>	<b>Plant &amp; Equipment</b>	<b>Patent Value</b>
IBM	\$16.7	\$26.7
Merck	\$13.1	\$24.3
Motorola	\$ 8.9	\$11.1
H-P	\$ 4.4	\$10.5 <sup>156</sup>

5. **What to Do?:** To say out loud what is obvious: to get maximum protection, immediately put an infinitely large pile of cash on a patent attorney’s desk. This is likely a bad business decision, but anything less is a compromise between prudence and maximum protection. The decision, with its risks and rewards, is yours, not the patent attorney’s.

### **OTHER PATENT INFORMATION**

Patent assignments must be timely recorded.<sup>157</sup> A merchant impliedly warrants that his goods are not subject to a rightful claim of infringement.<sup>158</sup> While legitimate invention development companies exist, the author is not personally aware of a single person who has profited from one.<sup>159</sup> A Wall Street Journal headline is instructive: “PATENT NONSENSE, NAIVE INVENTORS FALL FOR OPTIMISTIC PITCHES SOME MARKETERS MAKE, FIRMS OFTEN PRAISE THE IDEAS, GET PAID, THEN DO LITTLE TO GET IT MANUFACTURED.”<sup>160</sup> A patent must not be used to violate antitrust law.<sup>161</sup>

V.

**TRADE SECRETS**

**Rule #10: IT IS NOT A SECRET UNLESS IT IS SECRET.**

1. **Identify Your Trade Secrets.** You cannot protect it if you do not know what “it” is. What gives your business a competitive advantage? An inventory of your secrets, employee and third party agreements, etc. is the best first step. A trade secret is any secret information used by a business that gives it a competitive advantage.<sup>162</sup>

2. **The Trade Secrets Case.** A trade secret Plaintiff must timely<sup>163</sup> prove (1) a trade secret existed,<sup>164</sup> (2) Defendant learned the trade secret through a confidential relationship<sup>165</sup> or improper means,<sup>166</sup> (3) Defendant used or disclosed or will inevitably disclose<sup>167</sup> the trade secret without Plaintiff’s authorization,<sup>168</sup> and (4) Defendant profited from or Plaintiff was damaged by Defendant’s use or disclosure of the trade secret.<sup>169</sup>

3. **Proving Your Case.** What evidence can you create to win each of these jury questions? Your answer tells you most of what you need to know about trade secrets.

**JURY QUESTION NO. 1**

Do you find from a preponderance of the evidence that [Your Company’s] formula and/or process is a trade secret?

Answer: “Yes” or “No”: \_\_\_\_\_

**JURY QUESTION NO. 2**

Do you find from a preponderance of the evidence the Defendant used and/or disclosed the trade secret of [Your Company] with knowledge that the trade secret was in fact a trade secret and with knowledge that the use and/or disclosure of the trade secret was a breach of duty to [Your Company]?

Answer “Yes” or “No”: \_\_\_\_\_

4. **Security Program.** An inexpensive security program helps avoid expensive lawsuits, and win lawsuits if they occur. It informs employees of their duties and shows them

you are serious. This inexpensively prevents most problems. How you do this is limited only by your imagination.<sup>170</sup>

**THE FIRE DRILL  
MOTIVATOR**

- “Mr. Client, assume your top employee went to work for a competitor and you are on the witness stand.”
- “What do you want to be able to tell the jury about how you protected your trade secrets?”

49

**SOLUTION: IMPLEMENT  
SECURITY PROGRAM**

- Put Everyone on Notice
- Confidentiality Agreements
- Restrict Access
- Confidentiality Legends
- Physical Security
- New Employee Hiring
- Termination Procedures
- Periodic Audits

50

**Rule #11: EMPLOYEES LEAVE.**

1. **The Valuable Employee.** Employees are not inert warmware. While most are honest and loyal, some day they will likely work for a competitor. The day that happens is the day (1) you will realize that what he or she knows is valuable, and (2) you feel stupid for not being prepared.

2. **War Game.** Assume your top employee leaves you for a competitor and uses everything he knows against you. If you are not comfortable getting on the witness stand to prove (i) you took **reasonable measures** to keep your trade secrets confidential<sup>171</sup>, and (ii) the former **employee knew** he should not have taken the secret – then improve your security program.

3. **Visible Preparation.** The best way to convince employees to not wrongfully take your intangible assets when they leave is visible preparations against it. If employees understand they cannot legally take your intangible assets they are unlikely to try. Treating employees fairly, making good ethics corporate policy, and communicating that taking corporate intangible assets will bring the wrath of God is a better investment than paying lawyers to make ex-employees wish they had not taken your intangible assets.

4. **Fence Off Your Employees.** Publicizing that your key employees have confidentiality agreements makes it less likely that competitors will raid your employees to learn your trade secrets because inducing your employee to breach that obligation may comprise tortious interference<sup>172</sup> and civil conspiracy.<sup>173</sup>

5. **Covenants Not To Compete.** Non-competition agreements can be enforceable, but only if prepared by an attorney familiar with confusing legislation and court opinions.<sup>174</sup>

6. **A Man's Word.** While some employment relationships create implicit duties,<sup>175</sup> signed agreements that employees will not take your secrets,<sup>176</sup> compete with you, everything created is yours, etc., makes it more likely the employee will honor these promises. Every day you wait makes it harder to get signatures and reduces the agreement's enforceability.<sup>177</sup>

#### Confidentiality Agreement

Individual has confidential and fiduciary duties to Company and its customers, will strictly comply with any Company security program, and will devote his full time and attention to his duties to Company. All current and future goodwill, non-public information, and proprietary information relating to Company or Company's customers or vendors and all compilations, programs, improvements, inventions, writings, copies, notes, copyrightable works, opportunities for additional business, improving Company's business, or extending Company's business to other lines, etc. (all collectively 'Company Property') made, fixed, conceived, acquired, or learned by Individual during the term of Individual's relationship with Company are, without limitation, owned solely by Company as works-for-hire, and if not, by assignment, including all renewals, extensions, causes of action, and rights to reproduce, prepare derivative works, distribute copies, display, perform, transfer, make, use and sell, and may never be copied, used, or disclosed without Company's express written consent. Individual will sign any documents affirming the same for any particular item on request, during or after the relationship. Individual will not, except on Company business, use or disclose any Company Property without Company's written consent during or after Individual's relationship with Company. Individual will always promptly and fully disclose to Company all contacts with Company's then-current and potential investors, competitors, customers, and vendors; opportunities for additional business; improving Company's business; or extending Company's business to other lines. If Individual's relationship with Company ends, Individual will immediately deliver all Company Property and all documents and information concerning Company to Company.

## VI.

### KEEP ATTORNEYS FROM OWNING YOUR BUSINESS

#### **Rule #12: IF YOU WANT PEACE, PREPARE FOR WAR.**

1. **Avoid Litigation.** Nothing you have ever done compares to the expense of litigation. Most people will agree to arbitrate disputes or waive a jury trial (*i.e.* trial to a judge) before the dispute. Such agreements may avoid years of expensive litigation.<sup>178</sup>

2. **Create Evidence.** The best way to avoid litigation is to **visualize yourself in the witness stand with hard evidence to rebut each of your adversary's lies - and then create that evidence.** Examples: Tape record your important telephone calls (lawful in Texas<sup>179</sup>), send letters confirming oral agreements, use form agreements,<sup>180</sup> etc. People will rarely sue you if they know you will win.

3. **Limit Liability.** Most businesses should allocate assets and risks among more than one company.<sup>181</sup> A holding company may own key assets (trademarks, real estate, etc.) and license them to operating companies.<sup>182</sup>

4. **Insurance.** Umbrella insurance may cost a few hundred dollars, but literally save you from bankruptcy. If sued, take all of your insurance policies to an attorney specializing in insurance defense to see if the matter, or its defense,<sup>183</sup> is insured. For example: some policies' protection against "advertising injury" and "piracy" claims covers patent, trademark, and copyright claims.<sup>184</sup>

5. **Plan For The Inevitable.** Plan to get the best deal and minimize taxes for inevitable events.<sup>185</sup> **I guarantee you will stop working, dispose of your assets, and die.** Special agreements are needed to safely deal with financially weak companies.<sup>186</sup>

6. **Be Fair And Cautious.** This is a much-neglected way of avoiding litigation. Do not let a written agreement cause you to be less fair than if it were a handshake deal. More money has been lost fighting over scraps and minor defaults than has been left on the table by going along to get along.

**Lesson #13: If you want peace, prepare for war.**<sup>187</sup>

## VII.

### **CONCLUSION**

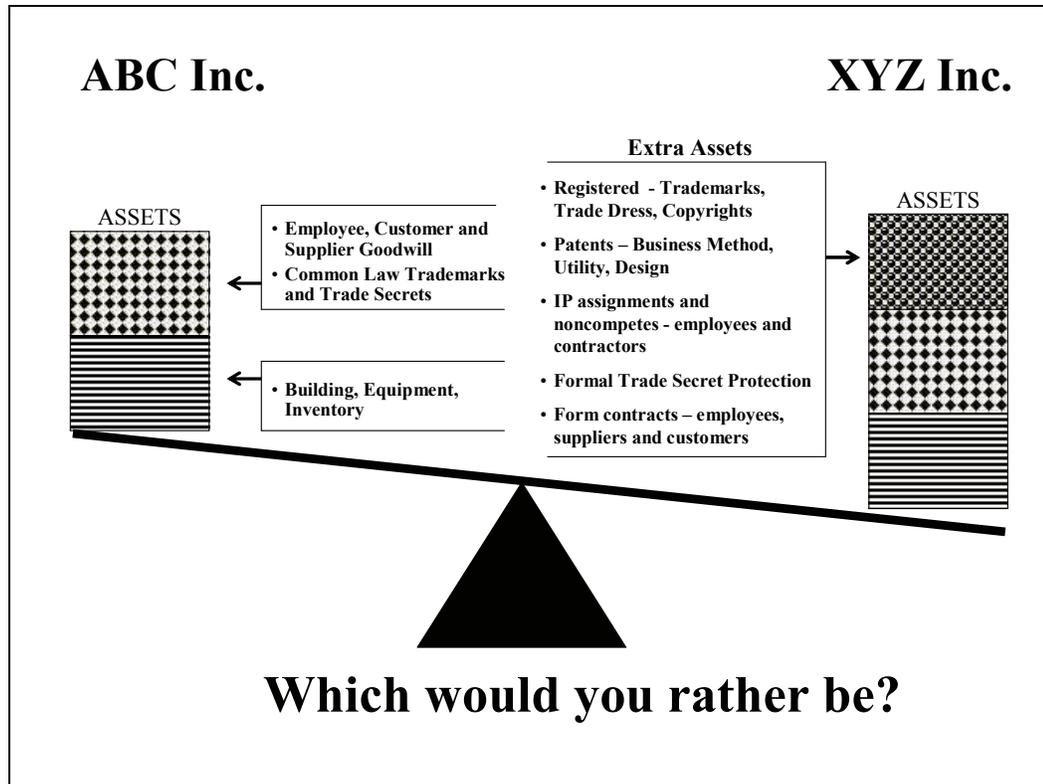
**Trademarks:** Make sure your proposed new mark is protectable and not owned by anyone else. Protect valuable marks with a federal trademark registration.

**Copyrights:** Get the author's written agreement that you own the copyright. Put a copyright notice on everything that might be copyrightable. Register if it might be important.

**Patents:** Get the everyone's written agreement that you own all patent rights. Quickly file inexpensive provisional applications.

**Trade Secrets:** Get everyone's written agreement that you own everything, they will keep your information confidential etc. Start an inexpensive security program.

This paper's instruction in using the Rules to protect teaches an equally important lesson -- using the Rules to ruthlessly and lawfully copy.



This is not legal advice. Completeness is sacrificed for brevity. Nothing stated here is 100% true, or attributable to the author's firm or its clients. For additional information, visit [www.jw.com](http://www.jw.com) for several more focused and detailed papers on the topics mentioned here. ©

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## END NOTES

<sup>1</sup> A property right is generally a right to exclude. “Intellectual Property” (“IP”) is generally a right to exclude others from making, using or selling intangible “property” created by the mind. This includes patents, trademarks, copyrights, trade secrets, goodwill, going concern value, contracts, covenants not to compete, licenses, etc. It is the DNA of business. Most countries with robust economics strike an equilibrium between protecting IP, because rational actors will invest less time, effort and money on innovation if others can free ride on it, and limiting IP, because too much protection stifles competition and sequential innovation. (The current 120-year copyright term is an excessively long monopoly.) The Founding Fathers considered IP protection so important to the Republic that Article I, section 8 of the Constitution authorizes Congress “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” The Supreme Court has stated that “[t]he economic philosophy behind the clause . . . is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare . . .” Mazer v. Stein, 74 S.Ct. 460, 471 (1954). “[T]he ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.” Twentieth Century Music Corp. v. Aiken, 95 S.Ct. 2040, 2044 (1975).

<sup>2</sup> “Trademark” or “mark” is used in this paper to identify both trademarks and service marks. 15 U.S.C. §1127; Tex. Bus. & Com. Code §§16.01(a)(4) - .01(a)(5).

<sup>3</sup> “Use” means actions which place the mark before the public. Typically, a bona fide sale of the marked object or service with an intent to continue in the future. 15 U.S.C.A. §§1051, 1127; Tex. Bus. & Com. Code Ann. §§16.02, 16.08; Blue Bell, Inc. v. Farah Mfg. Co., 508 F.2d 1260 (5<sup>th</sup> Cir. 1975). If the term is not inherently protectable, the use must be sufficient to create secondary meaning. Scott Paper Co. v. Scott’s Liquid Gold, Inc., 589 F.2d 1225 (1978 3<sup>rd</sup> Cir.).

<sup>4</sup> 15 U.S.C. §1051(b); Either prior public use of the mark in commerce, *i.e.*, to identify sales, or a bona fide intent to use the mark in commerce is a prerequisite to filing a federal application. An intent-to-use applicant must actually use the mark in commerce before the application will issue as a registration.

<sup>5</sup> (a) Incorporation “The filing of Articles of Incorporation . . . does not authorize the use of a corporate name in this state in violation of the rights of another under the Federal Trademark Act of 1946 (15 U.S.C. §1051 et seq.), the Texas Trademark Law (Chapter 16, Bus. & Com. Code), Assumed Business or Professional Name Act (Chapter 36) Business and Commerce Code, or the Common Law.” Tex. Bus. Corp. Act. Ann. Art. 2.05(c) (Secretary of State must give notice to corporations that incorporating does not affect the corporation’s right to use or exclude others from using the name); Ergon, Inc. v. Dean, 649 S.W.2d 772 (Tex. Civ. App.—Austin 1983). (b) Assumed Name “Nothing in this chapter shall be construed to give a registrant an assumed business or professional name any right to use the name when contrary to the common law or statutory law of unfair competition, unfair trade practices, common law copyright, or similar law. The mere filing of an assumed business or professional name certificate pursuant to this chapter shall not constitute actual use of the assumed name set out therein for purposes of determining priority of rights.” Tex. Bus. Com. Code § 36.17.

<sup>6</sup> 15 U.S.C. §1117; Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 561 F.2d 1365 (10<sup>th</sup> Cir. 1977), *cert. dismissed*, 434 U.S. 1052 (1978).

<sup>7</sup> The “senior” user is the first user to establish secondary meaning in the mark. Braun, Inc. v. Dynamics Corp. of America, 975 F.2d 815, 825 (Fed. Cir. 1992); Investacorp Inc. v. Arabian Investment Banking Corp., 931 F.2d 1519, 1525 (11<sup>th</sup> Cir. 1991), *cert. denied*, 112 S. Ct. 639 (1991); Inwood Lab., Inc. v. Ives Lab., Inc., 102 S.Ct. 2182 (1982) (“To establish secondary meaning, a manufacturer must show that, in the minds of the public, the primary significance of a product feature or term is to identify the source of the product rather than the product itself.” *Id.* at 851). The relevant secondary meaning public is not the general public, but the relevant buyer class. Beacon Mutual Ins. Co. v. One Beacon Ins. Group, 25 U.S.P.Q. 1409 (D.R. R.I. 2005). In some circumstances, pre-sales use such as advertising may be sufficient to create the association in the mind of the consuming public between the mark and the service to create common law priority. Unisplay S.A. v. American Electronics Sign Co., 28 U.S.P.Q.2d 1721 (E.D. Wash., 1993), *r’hrq denied*, 69 F.3d 512.

<sup>8</sup> ARMCO, Inc. v. ARMCO Burglar Alarm Co., 693 F.2d 1155 (5<sup>th</sup> Cir. 1982). (“Should have known”).

<sup>9</sup> This assumes the application ultimately issued as a registration which is still effective. 15 U.S.C. §1057(c). Prior to November 16, 1989, constructive notice ran from the date the registration issued. In contrast, only use after a Texas state registration issues is with constructive notice. Tex. Bus. & Com. Code §16.15(b); *but note*: Registration on the Supplemental Register does not create constructive notice, 15 U.S.C. §1094. An intent-to-use application’s issuance as a registration cannot be stopped by a party who began using after the application was filed. Warner Vision Entertainment, Inc. v. Empire of Carolina, Inc., 101 F.3d 259 (2<sup>nd</sup> Cir. 1996). 15 U.S.C. §1057(c)

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and §1072, but an intent-to-use application does not create territory limiting constructive notice against prior users upon its filing date, only on the registration date. 15 U.S.C. §1057(c).

<sup>10</sup> 15 U.S.C. §§1051-1127, *but note*, registration on a Supplemental Registration is not evidence of the registrant's ownership of the mark. 15 U.S.C. §§1057(b), 1072, 1115(a).

<sup>11</sup> (1) A trademark application is a deceptively simple document. For example, over claiming by including a good or service not supported by use in commerce may make the entire registration invalid. On the other hand, under-claiming the applicant's goods or services may unnecessarily limit the registration's scope. An application may be based on use, intent-to-use, or claim priority under international treaties. (2) Typical pendency between the application being filed and the first Office Action is about seven months. Office Actions often include one or more grounds for rejection. (3) A Response to an Office Action typically is written by a trademark attorney using arguments based upon statutes, regulations, the Trademark Manual of Examination Procedure, court decisions and evidence to persuade the examiner to withdraw the rejection. (4) If the examiner finds the application Mark is not blocked by an existing registration or pending application and that all statutory and procedural prerequisites are met, the application is published so anyone who believes they will be injured by registration can file an Opposition. (5) An Opposition is a lawsuit before the Trademark Trial and Appeal Board to determine if the application should issue as a registration. A potential opposer is permitted to request up to three extensions of time to oppose, totaling 120 days from the date of publication, before committing to imitate an opposition. This further delays issuance of the application. (6) Typical pendency between the application being filed and it issuing as a registration is about twenty months. Information on federal registrations can be obtained at [www.uspto.gov](http://www.uspto.gov). The Filing Fee is \$375 if filed by mail; \$325 if filed on-line.

<sup>12</sup> A Section 2(f) affidavit (15 U.S.C. §1052(f)), transfer to the Supplemental Register (T.M.R.P. 2.47), disclaimer (15 U.S.C. §1056, T.M.E.P. 904.03(d)), and citation of relevant Trademark Manual of Examining Procedure rules and relevant cases may be useful.

<sup>13</sup> Statements made in prosecution of an application to distinguish the applicant's mark over a blocking registration are admissions that may be used to narrow the applicant's resulting registration. E Z Loader Boat Trailers, Inc. v. Cox Trailers, Inc., 213 U.S.P.Q. 597, 599 (T.T.A.B. 1982), *aff'd.*, 706 F.2d 1231 (Fed. Cir. 1983). If the word mark may have registerability problems, it can be combined with a design to improve the odds of registerability. Although there are potential scope-limiting issues, some cases give full incontestability status to the word mark portion of a design registration. KP Permanent Make-Up, Inc. v. Lasting Impressions, Inc., 328 F.3d 1061 (9<sup>th</sup> Cir. 2003). False statements may cause cancellation or unenforceability. *In re Bose Corp.*, \_\_\_ F.3d \_\_\_ (Fed. Cir. 2009) (requiring proof that "applicant or registrant knowingly [make] a false material representation with intent to deceive the PTO."), Grand Canyon West Ranch LLC v. Hualapai Tribe, 78 U.S.P.Q.2d 1696 (TTAB 2006) (Opposition applicant successfully deleted claimed but unused services due to no fraud allegation); Conwood Corp. v. Lowe's Theatres, Inc., 173 U.S.P.Q. 829 (T.T.A.B. 1972); Torres v. Cantine Torreselle S.R.L., 808 F.2d 46 (Fed. Cir. 1986) (attached specimen not in use); Maids to Order v. Maid-to-Order, Inc., 78 U.S.P.Q.2d 1899 (TTAB 2006) ("Subjective belief" standard concerning prior users).

<sup>14</sup> Tex. Bus. & Com. Code §§15.01-29.

<sup>15</sup> Peaches Entertainment Corp. v. Entertainment Repertoire Assets, Inc., 62 F.3d 690 (5<sup>th</sup> Cir. 1995) (Innocent junior user given exclusive rights within its trade area against senior user who obtained federal trademark registration after innocent junior user began its first use. Bright Beginnings v. Care Comm., Inc., 30 U.S.P.Q. 1712 (C.D. Cal., 1994) (Discussion of the date upon which junior user's good faith is measured). A prior user can cancel the junior federal registrant's registration if the cancellation petition is filed within five years of the federal registration issuing. 15 U.S.C. § 1064. 15 U.S.C. §1115(b)(5), (6), and (8); An innocent junior user's federal registration can also preempt the senior user's state registration. Burger King of Florida, Inc. v. Hoots, 403 F.2d 904 (7<sup>th</sup> Cir. 1963); Davidoff Extension S.A. v. Davidoff Comerico E. Industria, 747 F.Supp. 122 (P.R. 1990) (senior user's prior state registration preempted by junior user's federal registration).

<sup>16</sup> International trademark protection is enormously complicated. Trademark rights are strictly territorial. A pirate who sees your trademark used in country A may keep you from using the mark in country B by registering the mark in country B before you do. Person's Co., Ltd. V. Christman, 900 F.2d 1565 (Fed. Cir. 1990). Further, many civil law countries only give trademark rights to the first registrant; who was first to use the mark in the country is irrelevant. Your own proposed or actual foreign licensee can sometimes obtain ownership of your trademark in its country simply by filing a trademark application there before you do. Such litigation, however, is expensive and uncertain. It is much better to obtain a trademark registration in the subject country before the unknown "too late" date. The result may be different if the foreign trademark is already famous in the country or if you can prove – in that country – that the junior party adopted the mark in bad faith for the purpose of blocking the foreign trademark owner's expansion.

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The Madrid Protocol (the “Protocol”) permits a single Protocol application to designate up to 58 Protocol countries in a single application. However, the Protocol merely gives each individual country application a common priority date and consolidates transfers and renewals. Local law applies otherwise. A data base of Protocol countries and registrations is found at <http://ipdl.wipo.int>. Many countries which do not participate in the Protocol are members of the Paris Convention. If maximum scope of protection is more important than cost, national applications should be considered because Protocol applications are limited to the host country’s description of the mark’s claimed goods and services and USA law limits this to the specific ones actually being sold. In contrast, most foreign countries allow sale of a single good or service to support trademark protection for an entire broad category. Thus, typically, foreign trademark protection with broader scope can be obtained if the Protocol is not used. For Europe, a Community Trademark registration (CTM) (one registration for all Europe) is often best. Further, use of a mark in any European country is sufficient to maintain the CTM registration for all CTM countries, while maintenance of each national Protocol registration requires use in each country. Obtaining a foreign registration is not the end of the game. Many countries have in-country use requirements and all require that registrations be renewed (calculated in lunar years in some countries).

<sup>17</sup> You may have “a duty to insure, through a proper and timely trademark search, that its [new trademark] campaign would not imitate an existing registered mark.” Sands, Taylor & Wood v. The Quaker Oats Co., 18 U.S.P.Q.2d 1456 (D.N.D. Ill. 1990), 44 F.3d 597 (7<sup>th</sup> Cir. 1995). If your investment in the new work will be large, a more expensive full search of trade names, trade journals, Dunn & Bradstreet listings, telephone books, etc., may be advisable. As the above discussion implies, clearance searching is complicated by the Paris Convention and the Madrid Protocol, which give certain USA applications the right to claim priority back to an earlier filed foreign application. Thus, sometimes a clearance search should include international databases. The likelihood of a useful search result versus the cost of such a search causes most adopters of new marks to not go to the expense of an international search.

<sup>18</sup> Foxworthy v. Custom Tees, 879 F.Supp. 1200 (N.D. Ga. 1995) (Use of “YOU MIGHT BE A REDNECK IF . . .” on a t-shirt infringed comedian’s trademark rights because the phrase was so associated with him that it had acquired trademark significance in the eyes of the public).

<sup>19</sup> 13 U.S.C. § 1127. A trademark is “any word, name, symbol, or device or combination thereof – (1) used by a person, or (2) which a person has a bona fide intention to use in commerce . . . to identify and distinguish . . . goods . . . from those manufactured or sold by others and to indicate the source of the goods.” 15 U.S.C. § 1051. Two Pecos, Inc. v. Taco Cabana, Inc., 112 S.Ct. 2753 (1992). “Marks are often classified in categories of generally increasing distinctiveness. Following the classic formulation set up by Judge Friendly, they may be (1) generic; (2) descriptive; (3) suggestive; (4) arbitrary; or (5) fanciful.” Qualitex Co. v. Jacobson Products Co., 115 S.Ct. 1300 (1995). Trademark law, by preventing others from copying a source-identifying mark, “reduce[s] the customer’s costs of shopping and making purchasing decisions,” for it quickly and easily assures a potential customer that *this* item – the item with this mark – is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past. At the same time, the law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product. The law thereby “encourage[s] the production of quality products,” and simultaneously discourages those who hope to sell inferior products by capitalizing on a consumer’s inability quickly to evaluate the quality of an item offered for sale. It is the source-distinguishing ability of a mark – not its ontological status as color, shape, fragrance, word, or sign – that permits it to serve these basic purposes.”

<sup>20</sup> Generic marks “refer to the genus of which the particular product is a species.” Two Pesos, Inc. v. Taco Cabana, Inc., 112 S.Ct. 2753, 2755 (1992). Filipino Yellow Pages, Inc. v. Asian Journal Publications, Inc., 198 F.3d 1143 (\_\_\_\_). (“Who-are-you/what-are-you” test.) The “anti-dissection” rule is that the mark must be considered as a whole, two generic terms may be combined to create a protectable mark if the composite mark serves as a source indicator.

<sup>21</sup> Small Business Assistant Corporation vs. Clear Channel Broadcasting, Inc., 210 F.3d 278 (5<sup>th</sup> Cir. 2000).

<sup>22</sup> Miller Brewing Co. v. Falstaff Brewing Corp., 655 F.2d 5, 7-8 (1<sup>st</sup> Cir. 1981).

<sup>23</sup> Zatarains, Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786 (5<sup>th</sup> Cir. 1983) (a descriptive term “identifies a characteristic or quality of an article or service – such as its color, odor, function, dimensions, or ingredients.” Id. at 790).

<sup>24</sup> If the mark is descriptive the jury is asked if the mark is (a) “merely descriptive” *i.e.* primarily describes the good or service, or (b) has “secondary meaning.” The former are unprotectable and the latter protectable. Secondary meaning means “acquired distinctiveness,” *i.e.* that the first meaning of the mark was not to identify the seller, but that, over time, the mark developed a second-in-time meaning, *i.e.* to identify the seller. The mark now distinguishes and identifies your goods and services from those of your competitors. The jury is instructed to

consider (1) the length and manner of the mark's use; (2) the nature and extent of advertising and promotions; (3) efforts made by plaintiff to promote a conscious connection in the public's mind between the mark and the plaintiff's product or business; and (4) the extent to which the relevant public actually identifies the name with the plaintiff's product or business. Zatarains, Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786 (5<sup>th</sup> Cir. 1983); This interacts with the priority race because "secondary meaning must be established before the date that the other party began using the similar term." Gulf Coast Commercial v. Gordon River Assoc., 508 F.Supp. 1157 (M.D. Fla. 2006); Cicena Ltd. V. Columbia Telecommunications Group, 900 F.2d 1546 (Fed. Cir. 1990) ("rejecting secondary meaning in the making").

<sup>25</sup> Vision Center v. Optics, Inc., 596 F.2d 111 (5<sup>th</sup> Cir. 1979), *cert. denied*, 100 S.Ct. 668.

<sup>26</sup> Beer Nuts, Inc. v. Clover Club Foods Co., 711 F.2d 934 (10<sup>th</sup> Cir. 1983).

<sup>27</sup> Longchamps, Inc. v. Eig, 315 F. Supp. 456 (S.D.N.Y. 1970).

<sup>28</sup> Eagle Snacks, Inc. v. Nabisco Brands, Inc., 625 F.Supp. 571 (D.N.J. 1985).

<sup>29</sup> Exxon Corp. v. Xoil Energy Resources, Inc., 552 F. Supp. 1008 (S.D.N.Y. 1981).

<sup>30</sup> "Trade dress constitutes a 'symbol' or 'device' for purposes of the relevant sections [Lanham Act, Sections 43(a) and 45], and we conclude likewise. Since human beings might use as a 'symbol' or 'device,' almost anything at all that is capable of carrying meaning, this language, read literally, is not restrictive." Wal-Mart Stores, Inc. v. Samara Brothers, Inc., 120 S.Ct. 1339 (2000). Two Pesos, Inc. v. Taco Cabana Int'l, Inc., 112 S.Ct. 2753 (1992) (Trade dress may be an arbitrary arrangement of functional features, "the total image of a product and may include features such as size, shape, color or color combinations, textures, graphics, or even sales techniques"). *E.g.* NBC's chime, U.S. Reg. No. 916,522, Walgreen's building design, U.S. Reg. No. 3,095,532, Owen Corning's pink insulation, U.S. Reg. No. 2,090,588.

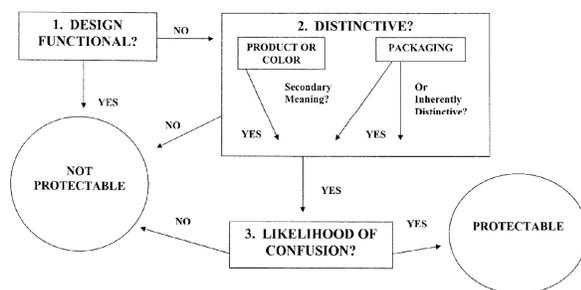
<sup>31</sup> Trade dress must be non-functional. 15 U.S.C. § 1125(a)(3) (a) **Utilitarian Functionality**. "A product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article." TraFFix Devices, Inc. v. Marketing Displays, Inc., 532 U.S. 23 (2001). Some courts read TraFFix to mean that mere *de facto* functionality, *i.e.*, the patent notion of any utility, bars trade dress protection. Eppendorf-Netheler-Hinz GmbH v. Ritter GmbH, 289 F.3d 351 (5<sup>th</sup> Cir. 2002), *cert. denied*, 537 U.S. 1071 (2002). Other courts read TraFFix as leaving room for the traditional view that not everything that performs a function is functional in the trademark sense and admit evidence of alternative designs to determine the competitive necessity of the design's utility. "Our decisions distinguish *de facto* functional features which may be entitled to trademark protection, from *de jure* functional features, which are not. "In essence, *de facto* functional means that the design of a product has a function, *i.e.*, a bottle of any design holds fluid." *De facto* functionality does not necessarily defeat registrability. *De jure* functionality means that the product has a particular shape "because it works better in this shape." Value Engineering, Inc. v. Rexnoral Corp., 278 F.3d 1274, 1278 (Fed. Cir. 2002). (Citations omitted.) Plaintiffs should (1) distinguish between functions of the device, functions of the design's individual elements, and functions incidental to the design, versus the arbitrary, non-functional and source identifying nature of the claimed design of the device as a whole, *i.e.*, the total collection of design elements, and (2) define their trade dress broadly, claiming only arbitrary features in a collection of design features. (b) **Aesthetic Functionality**. If a design has no utilitarian functionality, "It is proper to inquire into a "significant non-reputation-related disadvantage" in cases of aesthetic functionality." TraFFix. Qualitex Co. v. Jacobson Products Co., 115 S.Ct. 1051 (1995) ("If a design's "aesthetic value" lies in its ability to "confer a significant benefit that cannot practically be duplicated by the use of alternative designs," then the design is "functional." The "ultimate test of aesthetic functionality," it [the Restatement] explains, is "whether the recognition of trademark rights would significantly hinder competition." *Id.* at 1086.). "In practice, aesthetic functionality has been limited to product features that serve an aesthetic purpose wholly independent of any source-identifying function." Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc., 457 F3d 1062 (9<sup>th</sup> Cir. 2006); Abercrombie & Fitch Stores, Inc. v. American Eagle Outfitters, Inc., 280 F.3d 619 (6<sup>th</sup> Cir. 2002) (In-store presentation was functional, non-protectable trade dress). Defining the relevant market helps determine whether trade dress puts competitors at a significant non-reputation-related disadvantage. Tom W. Bell Virtual Trade Dress: A Very Real Problem, 56 MD.L.Rev. 384 (1997) (c) **Ornamental**. Whether trade dress is unprotectable due to being merely ornamental (no source identification) Trademark Manual of Examining Procedure §1202.02(a)(iii)(C) or due to being aesthetically functional is often confused. Cosmos Jewelry Ltd. v. Hung's Jewelry, Inc., 61 U.S.P.Q.2d 1220 (D. Haw. 2001) ("The jewelry was intended to be only esthetically pleasing, therefore, [it is] functional . . ."). After the copyright covering illustrations in Beatrix Potter's Children's books expired, the publisher claimed they were trade dress. Fredrick Warne & Co., Inc. v. Book Sales, Inc., 481 F.Supp. 1191 (S.D.N.Y. 1979) held they were merely ornamental.

<sup>32</sup> Trade dress must be distinctive. "A mark can be distinctive in one of two ways. First, a mark is inherently distinctive if "[its] intrinsic nature serves to identify a particular source." . . . Second, a mark has acquired

distinctiveness, even if it is not inherently distinctive, if it has developed secondary meaning, which occurs when, “In the minds of the public, the primary significance of a [mark] is to identify the source of the product rather than the product itself.” Wal-Mart Stores, Inc. v. Samara Brothers, Inc., 120 S.Ct. 1339 (2000). Trade dress protection was denied for Pebble Beach’s golf hole #14 because it was not so “arbitrary and distinctive compared to other golf holes such that the design automatically serves as identifiers of source” while its golf hole #18 was granted protection “because of its association with incorporation of the lighthouse, contains arbitrary source-identifying features that make its design inherently distinctive.” Pebble Beach Co. v. Tour 18 I Ltd., 942 F.Supp 1513 (S.D. Tex. 1996). **(a) Packaging.** Asserted trade dress in packaging can be inherently distinctive. **(b) Products and Color.** Asserted trade dress in the products or color is never inherently distinctive, and requires proof of secondary meaning. Trademark Office Examination Guide No. 2-00, Marks Consisting of a Configuration of a Product. **(c) Tertium Quid.** “Trade dress for means falling between product and packaging, such as restaurant décor, marketing theme of a retail store, etc., are deemed “tertium quid” subject to special inquiry.” Wal-Mart, supra. Yankee Candle Co. v. Bridgewater Candle Co., 259 F.3d 25 (4th Cir. 2001). (“In close cases, tertium quid trade dress is classified as product design, thereby requiring secondary meaning.”) Proving secondary meaning can be expensive and problematic. Plaintiffs should tailor their advertising to direct consumers to “look for” the distinctive elements the plaintiff wishes to protect. If any separable part of trade dress can be said to be a trademark, that part should be additionally pled as an inherently distinctive trademark. Louis Vuitton Malletier v. Dooney & Bourke, Inc., 454 F.2d 108 (2<sup>nd</sup> Cir. 2006).

<sup>33</sup> Trade dress owners should consider that “the producer can ordinarily obtain protection for a design that is inherently source identifying (if any such exists) but that does not yet have secondary meaning, by securing a design patent or copyright for the design.” Wal-Mart Stores Inc. v. Samara Brothers Inc., 120 S.Ct. 1339 (2000). Trademark Manual of Examining Procedure, §1202.02 Registration of Trade Dress. A trademark registration gives important statutory presumptions of non-functionality and distinctiveness. Donna - Margaret Goscicki v. Custom Brass & Copper Specialties, Inc., 229 F. Supp. 2d 743 (E.D. Mich. 2002);

**TRADE DRESS PROTECTABILITY**



Trade dress can give copyright-like protection to written materials. Computer Care v. Service Systems Enterprises, 982 F.2d 1063 (7th Cir. 1992). Paddington Corp. v. Attiki Importers & Distrib., 996 F.2d 577 (2<sup>nd</sup> Cir. 1993). Trade dress has assumed aspects of a perpetual design patent. Ferrari S.P.A. Eseruzio v. Roberts, 944 F.2d 1235 (6<sup>th</sup> Cir. 1991), *cert. denied*, 112 S.Ct. 3028 (1992). Kohler Co. v. Moen, Inc., 12 F.3d 632 (7<sup>th</sup> Cir. 1993) (design patent can coexist with trade dress). See, Jerome Gillson and Anne Gillson La Londe, Cinnamon Buns, Marching Ducks, and Cherry-Scented Race Car Exhaust: Protecting Non-Traditional Trademarks, Vol. 95 TMR 773 (2005).

<sup>34</sup> Protecting domain names is important and complicated. **(a) Trademark Registration.** Without a federal trademark registration, policing against confusingly similar domain names is difficult. A domain name can only be registered if it is used to identify goods or services rather than merely serve as an address. Examination Guide No. 29, found at [www.wspto.gov](http://www.wspto.gov), explains domain name registerability. **(b) Policing Cybersquatters.** Whether cyber squatters should be pursued under the Uniform Domain Name Dispute Resolution Policy, the Anticybersquatting Consumer Protection Act or trademark law depends on the facts of each case. Generally, a prior user with any national trademark registration wins. **(1) UDPP.** The UDPP was implemented by the Internet Corporation for Assigned Names (“ICAN”) and incorporated into applicable registration agreements. (1) The complainant must have rights to the name; (2) the terms must be identical or confusingly similar; (3) the current domain holder has no legitimate rights to the name; (4) current domain name holders is using the name in bad faith; and (5) the disputes are administered by World Intellectual Property Organization (WIPO). **(2) ACPA.** The Anti-Cybersquatting Consumer Protection Act (ACPA), enacted 11/29/1999, prohibits the registration, trafficking in, or

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use of a domain name that is identical to, or confusingly similar to, or dilutes a mark that is distinctive at the time the domain name is registered with “bad faith intent to profit from that mark.” ACPA lists nine factors a court may consider to determine if defendant acted in bad faith. The court may award damages from \$1,000 to \$100,000 per domain name. Shields v. Zuccarini, 254 F.3d 476 (3<sup>rd</sup> Cir. 2001) (Defendant registered five domain name variations of [www.joecartoon.com](http://www.joecartoon.com). Defendant ordered to transfer the sites to Plaintiff, pay Plaintiff’s attorney’s fees and pay a \$50,000 fine (\$10,000 per website). A typical “gripe site” does not present the requisite “bad faith” required by the ACPA. TM Inc. v. Maxwell, 368 F.3d 433 (5<sup>th</sup> Cir. 2004). **(3) Trademark Law.** Even without a national trademark registration, the prior user may attack the subsequent domain name user (“cybersquatter”) under the federal trademark dilution statute. Intermatic, Inc. v. Toeppen, 947 F.Supp. 1227, 40 U.S.P.Q.2d 1412, 41 U.S.P.Q.2d 1223 (N.D. Ill. 1996). Horseshoe Bay Resort Sales Co. v. Lake Lyndon B. Johnson Improvement Corp., 53 SW 3d 799 (Tex App – Austin 2001) (use of [www.horseshoebay.com](http://www.horseshoebay.com) enjoined as comprising Texas trademark infringement and dilution). David Kelly, “Trademark.com” Domain Names – Must They Communicate The Website’s Protected Content to Avoid Trademark Liability? *AIPLA*, Vol. 33, p. 397 (2005). **(c) Renewal.** Use of a reminder service such as [www.snapnames.com](http://www.snapnames.com) is advisable to guard against inadvertently neglecting to pay the annual domain name fee and losing it to someone else.

<sup>35</sup> “Fair use” is a defense to claims of infringement of a descriptive term. The fair use defense requires the defendant to prove that he used “a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party, or their geographic origin . . . .” 15 U.S.C. § 1115(b)(4). “A fair-use defense is established if (1) a defendant proves that its use is ‘other than a mark, (2) in a descriptive sense, and (3) in good faith.’” (International Stamp Art, Inc. v. U.S. Postal Service, \_\_\_ F.3d \_\_\_ (11<sup>th</sup> Cir. 2006). A defendant’s use of the term in a trademark sense bars the fair use defense. Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947 (7<sup>th</sup> Cir. 1992). On the other hand, (“[D]efendant has no independent burden to negate the likelihood of any confusion in raising the affirmative defense that a term is used descriptively, not as a mark, fairly and in good faith, § 1115(b)(4).”). KP Permanent Make-Up, Inc. v. Lasting Impression, Inc., 124 S.Ct. 2851 (2004).

<sup>36</sup> The value of a successful brand can be immense. COCA-COLA \$67B, MICROSOFT \$56B, IBM #56, GE \$48B, INTEL \$32B. The 100 Top Brands, *BusinessWeek*, August 7, 2006.

<sup>37</sup> Marks acquire power not by generally describing the type of goods and services sold, but by being different from the marks of other sellers of similar goods and services. Good marks are not incidentally different, they are necessarily different. They derive their power from their difference rather than their sameness. This logic is rarely apparent to the beginning business person who wants a mark that immediately informs prospective customers what the new business sells. After the business is successful and is being held back by a weak indistinguishable mark, then the business person wishes his mark was unique enough to cut through the competitive clutter. Prospective buyers distinguish each possible seller’s scale, specialization, location, technology and brand. Brand, a business’ perceived personality, can often be affected more easily than the other competitive elements and may be the business’ most important asset. Successful branding creates loyal customers with an emotional attachment to the mark. Over time, the incremental increase or lost opportunity to increase a business’ value due to controlling its brand is huge.

<sup>38</sup> To prove his mark is protectable, the Plaintiff must prove it is inherently distinctive or has acquired secondary meaning. A federal trademark registration is prima facie proof of protectability. An incontestable trademark registration is un rebuttable proof of protectability, unless the defendant can prove the mark is generic, which is a much higher burden than proving it is merely descriptive. One way to sell a new brand is to tell a story your target audience already knows, and put your brand into it as the hero. The power of this technique is due to your leveraging a strong existing subconscious emotion to your advantage with the target audience you have.

<sup>39</sup> The most common mistake is not focusing on how to help customers sell your product or service to others. Learning what customers want and using that knowledge to help your customers sell your product is the key to creating a vast cost-free army of salespersons.

<sup>40</sup> “Do you ever wonder why fishermen put bait on the hook? Well, let me tell you why. Because the fish doesn’t give a f— about you. The fish has his own agenda, which does not include getting in your boat and feeding your ass or getting you some money. It’s not on his list of things to do. You, on the other hand, need the fish. So it’s incumbent on you to motivate the fish, and it’s incumbent on you to know what that fish likes. And they don’t all like the same thing, which is your f—ing problem too. If you are smart enough to know something about the f—ing fish and where he resides and you put the right bait on, he might get off his ass and help you.” (Gordon Berthune, CEO, Continental Airlines, Texas Monthly, April 2005)

<sup>41</sup> In contrast to using MUSTANG to market automobiles to young American males (discussed in the text), Sears wisely chose DIE HARD to market automotive batteries to females (ceding the male market to auto parts stores and deciding this is what females want from a battery). McDonald’s Corporation’s choice of HAPPY MEAL

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illustrates identifying a target submarket and pitching to it. Like a great word mark, a logo should help the company tell its chosen best story. Logos are particularly important for companies with foreign commerce.

<sup>42</sup> A good comprehensive set of trademark usage rules can be found at [www.sun.com/policies/trademarks/](http://www.sun.com/policies/trademarks/). A trademark can lose distinctiveness to the point of becoming generic and unprotectable – Genericide. For example, THERMOS, ESCALATOR, ASPIRIN, and CELLOPHANE started out as protectable trademarks and became generic.

<sup>43</sup> “Likelihood of confusion” means that: (1) confusion by an appreciable number of ordinary prudent consumers is not just possible, but probable. Westchester Media v. PRL USA Holdings, Inc., 214 F.3d 658 *cert denied*, 126 S.Ct. 1662 (2006); International Ass’n of Machinists and Area Workers v. Winship Green Nursing Ctr., 103 F.3d 196, 200 (1<sup>st</sup> Cir. 1996), (2) concerning the “source, affiliation, or sponsorship” of defendant’s goods or services or whether defendant received permission from plaintiff to use defendant’s mark. Pebble Beach Co. v. Tour 181 Ltd., 155 F.3d 526, 543 (5<sup>th</sup> Cir. 1998). The Fifth Circuit uses a seven-part “digits of confusion” test. American Century Proprietary Holdings, Inc. v. American Century Casualty Co., \_\_\_ F.3d \_\_\_ (5<sup>th</sup> Cir. 2008). In addition to point-of-sale confusion, actionable confusion can include “initial interest confusion,” Elvis Presley Entertainment v. Capece, 141 F.3d 188, 204 (5<sup>th</sup> Cir. 1998) and post-sale confusion. Levi Strauss & Co. v. Blue Bell Inc., 632 F.2d 817 (9<sup>th</sup> Cir. 1980).

<sup>44</sup> Possible defenses to a charge of trademark infringement comprise: fair use, nominative use, First Amendment, laches, (Elvis Presley Entertainment Inc. v. Capece, 141 F.3d 188, 205 (5<sup>th</sup> Cir. 1998) (Laches begins to run when plaintiff knew or should have known of the infringement), *but see*, What-A-Burger of Virginia, Inc. v. Whataburger, Inc. of Corpus Christi, Texas, 357 F.3d 441 (4<sup>th</sup> Cir. 2004) (No laches even though senior user knew of infringing use sufficient to require legal action; and (2) legal action is not required until there is a real likelihood of confusion.”)); Champagne Louis Roederer v. J. Garcia Carrion, S.A., \_\_\_ F.3d \_\_\_ (8<sup>th</sup> Cir. 2009) (Defendant who knew of trademark owner’s objection cannot assert laches); and Board of Supervisors v. Smock Apparel Co., \_\_\_ F.2d \_\_\_ (5<sup>th</sup> Cir. 2008) (Defendant’s intentional infringement comprises unclean hands, blocking laches defense) unclean hands, parody, non-trademark use, senior mark is not protectable, estoppel, statute of limitations, misuse (such as sham litigation); abandonment via naked license, assignment in gross, acquiescence, failure to police, non-use, waiver, loss of distinctiveness, invalid registration; first use or innocent first remote use, mere de minimus confusion; fraudulent registration, etc.

<sup>45</sup> Plaintiff can recover up to three times its actual damages. 15 U.S.C. § 1117; Dial One of the Mid-South Inc. v. Bell South telecomm Inc., 269 F.3d 523, 527 (5<sup>th</sup> Cir. 2001). The plaintiff may sometimes recover the defendant’s profits. Quick Technologies Inc. v. Sage Group PLC, 313 F.3d 338, 348-49 (5<sup>th</sup> Cir. 2002); Logan v. Burgers Ozark Country Cured Hams Inc., 263 F.3d 447, 464 (5<sup>th</sup> Cir. 2001) (How defendant’s profits are accounted.).

<sup>46</sup> “The Court in exceptional cases may award attorneys fees to the prevailing party.” 15 U.S.C. § 1117. Seven-Up Co. v. Coca-Cola Co., 86 F.3d 1379 (5<sup>th</sup> Cir. 1996). A prevailing defendant may also sometimes recover his attorney’s fees if the suit was brought in bad faith. Proctor & Gamble Co. v. Amway Corp., 280 F.3d 519 (5<sup>th</sup> Cir. 2002).

<sup>47</sup> 15 U.S.C. § 1117(c). Statutory damages for willful copying of a registered mark may reach \$1,000,000.

<sup>48</sup> 18 U.S.C. § 2320.

<sup>49</sup> Dilution may occur through blurring or tarnishing. “Dilution by blurring is association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.” 15 U.S.C. § 1125(c)(2)(B). “Dilution by tarnishment is association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.” 15 U.S.C. § 1125(c)(2)(C). The Scott Fetzer Co. v. House of Vacuums, Inc., 381 F.3d 477 (5<sup>th</sup> Cir. 2004). **a. Federal Statute.** 15 U.S.C. § 1125(c). The federal antidilution statute is limited to the protection of “famous marks” determined in accordance with four factors. Willful federal dilution can result in damages. An amendment to 15 U.S.C. § 1125(c) overturned Mosely v. Secret Catalogue, Inc., 123 S.Ct. 1115 92003). A mark on the Principal Register cannot cause dilution under any state law. Fair use and noncommercial use of another’s mark is lawful. 15 U.S.C. § 1125(c)(3). TM, Inc. v. Maxwell, 368 F.3d (5<sup>th</sup> Cir. 2004). **b. Texas Statute.** Texas law protects against “an act likely to injure a business reputation or to dilute the distinctive quality of a mark registered . . . [in Texas or federally] or a mark or trade name valid at common law, regardless of whether there is competition between the parties or confusion as to the source of goods or services.” Tex. Bus. & Comm. Code §16.29. Unlike the federal dilution statute, Texas only requires proof of distinctiveness rather than fame. *Compare*, Advantage Rent-A-Car, Inc. v. Enterprise Rent-A-Car, Inc., 238 F.3d 378 (5<sup>th</sup> Cir. 2001) (“We’ll pick you up” distinctive), *with*, E. J. Gallo Winery v. Spider Webs Ltd., 129 F. Supp. 2d 1033, 1037 (S.D. Tex. 2001) (defendant’s acts were not a “commercial use” and did not cause

consumer confusion); Osgood Heating & Air Conditioning, Inc. v. Osgood, 75 U.S.P.Q. 1432 (W.D. Tex. 2004) (injunction granted), *with*, Express One International, Inc. v. Steinbeck, 53 S.W.3d 895 (Tex. App.—Dallas 2001) (No blurring or tarnishment); Half Price Books, Records, Magazines, Inc. v. Barnesandnoble.com, LLC, 3:02-CV-2518-G, 2003 U.S. Dist. LEXIS 24254 (N.D. Tex. 2003) (“Half Priced Books” not distinctive). Whether the Texas statute applies to competitors is an open question. *Compare*, Three Blind Mice Designs Co. v. Cyrick, Inc., 892 F.Supp. 303 (D. Mass. 1995). (15 U.S.C. § 43(a) preempts), *and*, Abbott Labs v. Nutramax Products, Inc., 844 F. Supp. 433, 477 (N.D. Ill. 1994) (“Commercial competitors cannot recover under Illinois anti-dilution statute.”) *with*, Gaston’s White Rivr Resort v. Rush, 701 F. Supp. 1431, 4440 (W.D. Ark. 1988) (Arkansas anti-dilution statute applies “to competitors who compete”).

<sup>50</sup> Zocchini v. Scripps-Howard Broadcasting Co., 97 S.Ct. 2849 (1977) (“Human Cannonball” case), Tex. Prop. Code §26.002 (Buddy Holly statute grants a 50-year right of publicity from death). Mantle v. The Upper Deck Club, 956 F.Supp 719 (N.D. Tex. 1997) (Chapter 26 permits exemplary damages). Different states’ statutes vary widely.

<sup>51</sup> Coin v. Hearst Corp., 878 S.W.2d 577 (Tex. 1994) (right (1) to be left alone in private matters, (2) to freedom from public disclosure of private facts, and (3) against appropriation of name or likeness for commercial use, and declining to recognize a “false light” right of privacy.)

<sup>52</sup> Statutory unfair competition law is stated in 15 U.S.C. § 1125(a) and Tex. Bus. & Comm. Code § 16.29 (prescribing “an act likely to injure the business reputation”), and takes several forms: **(a) misappropriation**, Zocchini v. Scripps-Howard Broadcasting Co., 97 S.Ct. 2849 (1977) (short “Human Cannonball” TV clip unlawful); Cardtoons L.C. v. Major League Baseball Players Assn., 95 F.3d 959 (10<sup>th</sup> Cir. 1996) (public’s interest in free expression overcame right of publicity). **(b) misrepresentation**, Proctor & Gamble v. Haugen, 222 F.3d 1262 (10<sup>th</sup> Cir. 2000) (Amway distributor’s message that Proctor & Gamble’s profits funded “church of Satan” comprised a 15 U.S.C. § 1125(a) “commercial activity” and unfair competition). Pizza Hut, Inc. v. Papa John’s International, Inc., 227 F.3d 489 (5<sup>th</sup> Cir. 2002) ((1) “Better Ingredients-Better Pizza” slogan was non-actionable puffery because it was not a statement of fact that customers rely on, (2) but, when used with the sauce and dough ads, was actionably misleading, (3) but, the deception did not cause consumers to buy more Papa John’s pizza.- so it was ok). **(c) Reverse confusion**, This occurs when the junior user’s marketing causes customers to mistakenly believe the senior user is a second comer or infringer. King v. Ames, 179 F.3d 370 (5<sup>th</sup> Cir. 1999); Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 561 F.2d 1365 (10<sup>th</sup> Cir.) (Colorado law), *cert. denied*, 434 U.S. 1052 (1978). This is similar to the Europe’s *adroit moral*, moral right to attribution. *But see*, Dastar Corp. v. Twentieth Century Fox Film Corp., 123 S.Ct. 2041 (2003) (The copyright in Dwight Eisenhower’s World War II book, *Crusade in Europe* was renewed but not the copyright in a TV series based on the book. Unaccredited use of unauthorized revision of the expired broadcast material was lawful).

<sup>53</sup> (a) **A naked license** is a trademark license in which the licensor does not sufficiently control the licensee’s use of the mark, causing abandonment of the licensor’s rights. Moore Business Forms, Inc. v. Ryu, 960 F.2d 486 (5<sup>th</sup> Cir. 1992) (Consent-to-use distinguished from naked license). (b) **Failure to police** or acquiescence occurs when a trademark owner fails to enforce his rights against infringers for long enough and in appropriate circumstances that the trademark owner’s rights are abandoned due to the mark losing its distinctiveness. (c) **Assignment in gross** is an assignment of the mark apart from its goodwill, which comprises trademark abandonment. interstate Net Bank v. Net B@nk, Inc., 348 F. Supp 2d 340 (NJ 2004) (“[A]n assignment without the transfer of physical assets will only be upheld where the assignee ‘is producing a product or providing a service which is substantially similar to that of the assignor . . . .” (emphasis of Court, citations omitted). These are technical matters with many nooks and crannies for the unwary.

<sup>54</sup> Assignment of a registered mark must be recorded within three months of the purchase or your purchase may be unenforceable against a subsequent innocent purchaser. 15 U.S.C. §1060.

<sup>55</sup> [http://cbp.gov/xp/cgov/import/commercial\\_enforcement/IPR/](http://cbp.gov/xp/cgov/import/commercial_enforcement/IPR/).

<sup>56</sup> “Expression” is what is not necessary. This may be the work’s (1) content, or (2) “compilation” *i.e.* selection (example - list of San Antonio’s 50 best restaurants) or arrangement of its contents. Works which do contain enough expression are not copyrightable. Feist Publications, Inc. v. Rural Tel. Service Co., 111 S.Ct. 1282 (1991). (Telephone white pages not copyrightable because it is merely an alphabetical arrangement of factual data. The Constitution limits copyright protection to original works “founded in the creative powers of the mind. The writings which are to be protected are *the fruits of intellectual labor*” [emphasis of the court]). Many foreign countries grant copyright like protection to industrial designs upon rules that judge the importance of “functionality” differently than U.S. copyright law. The foreign countries’ requirements for industrial design protection typically require timely obtaining an industrial design registration.

<sup>57</sup> “A work is ‘fixed’ in a tangible medium of expression when its embodiment in any copy or phonorecord . . . is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.” 17 U.S.C. §101.

<sup>58</sup> “Works of Authorship,” 17 U.S.C. §§101-102. Additionally, trade dress protection may apply if the work is recognized by the public as a work of the owner. Romm Art Creations Ltd. V. Simcha Int’l, Inc., (1992) W.L. 52527.

<sup>59</sup> 17 U.S.C. §102(b). Section 102(b) embodies the so-called idea/expression dichotomy as a method for separating unprotectable elements of a work from protectable elements. Mazer v. Stein, 347 U.S. 201 (1954); AM Dental Ass’n v. Delta Dental Plans Ass’n, 126 F.3d 977, 981 (7<sup>th</sup> Cir. 1997) (“Someone who buys a book full of ideas for a new machine may build and sell one of the machines without infringing the author’s copyright.”).

<sup>60</sup> 17 U.S.C. §102(b); 37 C.F.R. §202.1.

<sup>61</sup> Bibbero Sys., Inc. v. Colwell Sys., Inc., 893 F.2d 1104 (9<sup>th</sup> Cir. 1990).

<sup>62</sup> Feist Publications, Inc. v. Rural Tel. Serv. Co., 111 S.Ct. 1282 (1991) (alphabetical list of telephone subscribers had insufficient creativity to be copyrightable). “Words and short phrases such as names, title, and slogans; familiar symbols or designs; mere variations of typographic ornamentation, lettering or coloring; mere listing of ingredients or contents” are not copyrightable. 37 C.F.R. §202.1.

<sup>63</sup> If a work embodies both functional and expressive features, the expressive features may be copyrightable. Galiano v. Harrah’s Operating Company, 416 F.3<sup>rd</sup> 411 (5<sup>th</sup> Cir. 2005) ([T]he copyrightability of a useful article seems, at some elemental level, to turn on the capacity of an item to moonlight as a piece of marketable artwork.”).

<sup>64</sup> A short bare bones recipe likely lacks sufficient form creativity as opposed to content creativity (i.e., a functional “procedure, process, [or] system.” 17 U.S.C. §1026(b), that is subject to patent protection) to be copyrightable. Publication International, Ltd. V. Meridith Corp., 88 F.3d 473 (7<sup>th</sup> Cir. 1996).

<sup>65</sup> The merger doctrine precludes copyright protection where the information or idea merges with the only way to express the information or idea. Compare, Kern River Gas Transmission Co. v. Coastal Corp., 899 F.2d 1458 (5<sup>th</sup> Cir. 1990), with, Mason v. Montgomery Data, Inc., 967 F.2d 135 (5<sup>th</sup> Cir. 1992).

<sup>66</sup> 17 U.S.C. §302(a). For joint works, the term ends 70 years after the last surviving author’s death. Terms are measured from the end of the calendar year of the author’s death. Copyright duration varies from country to country. Copyright rights have expired on all U.S. works registered or published before 1923. Generally, works first registered or published before January 1, 1978, are protected for an initial term of 28 years and, if renewed, for a renewal term of 67 years for a total of 95 years. Copyrights still in their first 28 year term on January 1, 1978 were automatically renewed. The renewal period is extended by Congress from time to time to protect powerful Hollywood studios’ profitable films. Unpublished pre-1978 works which were still not published as of December 31, 2002 are treated under the § 302 timelines discussed in the text. Unpublished pre-1978 works which were then published before December 31, 2002 have the same copyright duration timelines except that they in no event expire before December 31, 2047.

<sup>67</sup> 17 U.S.C. §302(c).

<sup>68</sup> Works created before January 1, 1978 are subject to different rules. Copyright assignments may be terminated between the 35<sup>th</sup> and 40<sup>th</sup> years, notwithstanding any agreement to the contrary.

<sup>69</sup> For example, the duration of copyrights in Mexico is life plus 100 years. In Europe, duration is typically life plus 70 years. Certain works first published outside the USA, formerly in the public domain, came back into copyright protection due to the GATT.

<sup>70</sup> If direct infringement occurs, then others may be held liable via contributory infringement and vicarious liability. Compare Metro-Goldwyn-Mayer v. Grokster Ltd., 545 U.S. 125 S.Ct. 2764 (2005) (pier to pier system induced infringement in part because promoter advertised using it to copy), with, Sony v. \_\_\_\_\_, \_\_\_ S.Ct. \_\_\_ (\_\_\_\_) (VCR manufacturer did not induce infringement, because the recorder had a “substantial non-infringing use.” and plaintiff failed to submit “inducing” evidence).

<sup>71</sup> Protectability includes originality, authorship, compliance with copyright formalities such as proper registration and ownership. A copyright registration is *prima facie* proof of all of these elements. 17 U.S.C. §401(c).

<sup>72</sup> If the defendant’s work is identical to the plaintiff’s copyrighted work, but the defendant independently created his work, then there is no copyright infringement because there is no “copying.” The copyright owner has several exclusive rights in addition to the right to prevent copying. For example, to distribute the work or copies of it, create derivative works based on the work, to display the work, to perform the work publicly, etc. 17 U.S.C. §106.

<sup>73</sup> The jury is typically instructed to use a three-step test in determining the infringing similarity question: (1) an “abstraction” step to identify the progressively-higher levels of abstract concepts applicable to Plaintiff’s work, (2) a

“filtration” step separating protectable expression from nonprotectable material (Bateman v. Mnenomics, 37 U.S.P.Q.2d 1225 (5<sup>th</sup> Cir. 1995)) and (3) a “comparison” step comparing the remaining protectable portion of Plaintiff’s work with the Defendant’s work. Feist Publications, Inc. v. Rural Telephone Services Co., 499 U.S. 340 (199) (wrongful copying requires “copying of constituent elements of the work that are original”). Compare, Computer Assoc. Intern., Inc. v. Altai, 982 F.2d 693 (2d Cir. 1992), *with*, Lotus Dev. Corp. v. Borland Inter’l, Inc., 49 F.3d 807, *aff’d*, 516 U.S. 233 (1996) (nonprecedential 4-4 tie) (469 word menu command system of Lotus 1-2-3 spreadsheet is an unprotectable “method of operation” under 17 U.S.C. §102(b)). The less original the copyright owner’s work, the “thinner” its scope of protection. Matthews v. Freedman, 157 F.3d 25 (1<sup>st</sup> Cir. 1998) (“Someone went to Boston and got me this shirt because they love me very much” not infringed by “Someone who loves me went to Boston and got me this shirt”). Ets-Hokin v. Skyy Spirits, Inc., 225 F.3d 1068 (9<sup>th</sup> Cir. 2003) (Defendant’s photo of same bottle did not infringe Plaintiff’s photo. “Though the [Plaintiff’s and Defendant’s] photographs are indeed similar, their similarity is inevitable, given the shared concept, or idea, of photographing the Skyy bottle. When we apply the limiting doctrines, subtracting the unoriginal elements, [Plaintiff] is left with only a ‘thin’ copyright, which protects against only virtually identical copying.”).

<sup>74</sup> Copyright infringement defenses include: invalid copyright, laches, estoppel, statute of limitations, fair use, independent creation, copyright misuse, unclean hands, waiver, First Sale doctrine, parody, invalid registration, etc.

<sup>75</sup> 17 U.S.C. §107. There is an “inherent tension in the need simultaneously to protect copyrighted material and to allow others to build upon it.” Campbell v. Acuff-Rose Music, Inc., 114 S.Ct. 1164 (1994). The accused publication’s effect on the economic market for the copyright owner’s materials is the “single most important element of fair use.” Harper & Row Publishers, Inc. v. Nat’l Enterprises, 471 U.S. 539 (1985). Princeton University Press v. Michigan Document Services, Inc., 37 U.S.P.Q.2d 1673 (6<sup>th</sup> Cir. 1996) (Defendant’s production of “core specs” comprised of excerpts of original materials for student use held to be a fair use. Excellent discussion of the four fair use factors together with an excellent dissenting opinion.)

<sup>76</sup> For example, the several divisible copyright rights in a successful song are typically licensed out as follows: (a) mechanical license to initially reproduce and distribute the sound recording on CDs; (b) compulsory mechanical license for musical compositions that have been previously recorded at a standard statutory rate; (c) synchronization license to synchronize the song into an audio visual work such as a film or website; (d) performance license to perform the song publicly such as at a church or theatre; and (d) publishing license to create printed sheet music of the song.

<sup>77</sup> 17 U.S.C. §§101, 103.

<sup>78</sup> While the text states the majority rule, this is the subject of disagreement among the courts. Some courts hold that if a preexisting work “pervades” the entire unauthorized derivative work, then the derivative work is not entitled to any copyright protection. Sobhani v. @radical.media, Inc., 257 F. Supp. 2d 1234 (C.D. Cal 2003); Eden Toys Inc. v. Floreless Undergarments Co., 697 F.2d 27, 34 n.6 (2<sup>nd</sup> Cir. 1982). Other courts hold that no new copyright rights are created in any unauthorized derivative work. Pickett v. Prince, 207 F.3d 402 (7<sup>th</sup> Cir. 2000).

<sup>79</sup> 17 U.S.C. §1201, *et seq.* To unlawfully “circumvent a technological measure” is to “descramble a scrambled work, to decrypt an encrypted work or otherwise avoid, bypass, remove, deactivate or impair a technological measure, without the authority of the copyright owner.” 17 U.S.C. §1201(a)(3)(A). The DMCA also forbids defeating copyright management systems, defined as anything that identifies a copyrighted work. 17 U.S.C. §1202(c). Although limited safe harbor provisions exist for passive internet service providers, “fair use” is not a DMCA defense. 17 U.S.C. §512(c), ALS Scan, Inc. v. Remarq Communities, Inc., 239 F.3d 619 (4<sup>th</sup> Cir. 2001). The DMCA controls the act of access to a work, without consideration of what use the person will make of the work. Copyright law controls the act of copying. The access step and the copying step are different physical and conceptual acts. Copyright law considerations such as “fair use,” and constitutional considerations such as the First Amendment are irrelevant to the DMCA; Perfect 10, Inc. v. Cybernet Ventures, Inc., 213 F. Supp. 2d 1146 (C.D. Cal. 2002); Universal City Studios, Inc. v. Coreley, 273 F.3d 429 (2d Cir. 2001).

<sup>80</sup> Compare Galiano v. Harrah’s Operating Co., 416 F. 3d 411, 420 (5<sup>th</sup> Cir. 2005) (Invalidating copyright in Harrah’s uniform “[T]he copyrightability of a useful article seems, at some elemental level, to turn on the capacity of an items to moonlight as a piece of marketable artwork.”) *with*, Chosun International Inc. v. Chrisha Creations, Ltd., 413 F. 3d 324, 329 (2nd Cir. 2005) (Reversing summary judgment which invalidated copyright in costume “while design elements that “reflect a merger of aesthetic and functional considerations . . . cannot be said to be conceptually separable from the utilitarian elements,” [not eligible for copyright protection, citation omitted] “where design elements can be identified as reflecting the designer’s artistic judgment exercised independently of functional influences, conceptual separability exists. [are eligible for copyright protection]” (Quoting Brondir International v. Cascade Pacific Lumber Co., 834 F.2d 1142 (2nd Cir. 1987)).

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<sup>81</sup> 17 U.S.C. §§101, 102. If the work was publicly distributed before March 1, 1988, without a copyright notice or with a copyright notice that misled the infringer then, even if the copyright is valid, the infringer's proof of his good faith is a complete defense. 17 U.S.C. § 406(a). Otherwise, omission or garbling the copyright notice merely lets the infringer argue that his infringement was not willful." 17 U.S.C. § 504.

<sup>82</sup> For phono records, P in a circle should be substituted for ©. 17 U.S.C. §402(b).

<sup>83</sup> If the year date in the notice is more than one year later than first publication, the work is considered to have been published without any notice. 17 U.S.C. §405(c). Thus, if the work is revised, the year date of the original and each published revision should be included. Example: "Copyright, Mark Miller 1987-2007." Prior to March 1, 1991, copyright rights could be forfeited through publication without proper notice.

<sup>84</sup> See 17 U.S.C. §401(b).

<sup>85</sup> Registration is not a prerequisite to an infringement action for Berne Convention works whose country of origin is not the United States. 17 U.S.C. §411.

<sup>86</sup> 17 U.S.C. §412. An award of statutory damages for willful copyright infringement is not dischargeable in bankruptcy. In re Albarron, 347 B.R. 369 (9<sup>th</sup> Cir. BAP 2006). Works originally copyrighted between January 1, 1950, and December 31, 1977, have additional protections if their registrations are timely renewed rather than relying on the Copyright Acts' automatic renewal provisions. A prevailing defendant may recover its attorney's fees whether or not the work was promptly registered. Fogerty v. Fantasy, Inc., 114 S.Ct. 1023 (1994).

<sup>87</sup> "Prior Registration" means the infringement commenced either (a) after the work was registered or (b) if the infringement commenced after the first publication of the work and before the date of its registration, the registration was within three months after the first publication of the work. A copyright infringement suit cannot even be filed without a copyright registration (or at least an application for copyright registration on file – it depends on where in the USA the suit is filed). The effective date of a copyright registration is the date the application from which the registration issued was received by the Copyright Office. The only question this chart addresses is whether the registration was obtained before or after the infringer began the infringement.

<sup>88</sup> The less expensive method is to protect several works in one collection application for one filing fee. Szabo v. Errison, 68 F.3d 940 (5<sup>th</sup> Cir. 1995). If litigation is likely, individual registrations can be obtained to improve the odds of obtaining a substantial monetary statutory remedy since statutory remedies may be awarded for each work infringed and individual registrations may help with the "copied a substantial part" of the work burden of proof. The number of registrations, however, does not necessarily determine the number of works.

<sup>89</sup> Raquel v. Education Mgmt. Corp., 196 F.3d 171 (3<sup>rd</sup> Cir. 1999) (designating work as "audio visual work" rather than "musical work" in a copyright application was a material mischaracterization invalidating the registration); Qad, Inc. v. ALN Assoc., Inc., 770 F.Supp. 1261 (N.D. Ill. 1991) (copyright unenforceable due to improper application), *aff'd*, 974 F.2d 834 (7<sup>th</sup> Cir. 1992); Lasercomb America, Inc. v. Reynolds, 911 F.2d 970 (4<sup>th</sup> Cir. 1990); Whimsicality, Inc. v. Rubies Costumes, Co., 891 F.2d 452 (2<sup>nd</sup> Cir. 1989) (deliberate misclassification of item in application invalidated copyright); GB Mktg. USA, Inc. v. Gerlsteiner Brunnen GmbH & Co., 782 F.Supp. 763 (W.D.N.Y. 1991) (knowing failure to disclose material information in copyright application with intent to deceive the Copyright Office invalidated the copyright).

<sup>90</sup> 17 U.S.C. §201(a). "The authors of a joint work are co-owners of copyright in the work." *Id.* A work is not a joint work unless more than one author adds independently copyrightable contributions. BancTraining Video Systems v. First American Corp., 956 F.2d 268 (6<sup>th</sup> Cir. 1992). An author of a collective work only obtains a copyright in his "separate contribution to the work." 17 U.S.C. §201(c). Although the matter is not clear, it appears that copyright rights are separate rather than community marital property. Rodrigue v. Rodrigue, 218 F.3d 432 (E.D. La. 2000).

<sup>91</sup> A "joint work" is a work prepared by two or more authors "with the intention that their contributions be merged into inseparable or interdependent parts of unitary whole." 17 U.S.C. §101. Each co-owner is akin to a tenant in common. Compensation received by a co-owner for use of the work must be shared with the other co-owners.

<sup>92</sup> "A 'work made for hire' is – (1) a work prepared by an employee within the scope of his or her employment." 17 U.S.C. § 101. "In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for the purposes of this title . . ." 17 U.S.C. § 201. The Copyright Act does not define either "employee" or "scope of employment." Instead, the Supreme Court adopted the Restatement (Second) of Agency (1958) to define those terms. While no single factor is determinative of whether a person is an employee, the Restatement's non-exhaustive list of factors was considered by the Court. Regular hours, W-2 tax form, employer provides the work place, and employee's method of performance is subject to employer's instructions. Community For Creative Non-Violence v. Reid, 109 S.Ct. 2166 (1989); Restatement (Second) of Agency §§2, 220, 228 (non-exhaustive list of factors in §220). Works for hire also include very restricted class of works specially

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ordered or commissioned if the parties expressly agree in a “written instrument signed by them” that the work shall be a work for hire. 17 U.S.C. § 101.

<sup>93</sup> A work created by an employee outside of his “scope of employment” belongs to the employee, not the employer. 17 U.S.C. §§101, 201(b); **(a) Scope of Employment.** Easter Seal Soc’ v. Playboy, 108 S.Ct. 1280 (1988) held that the common law of agency is relevant to analyze the copyright statutes’ “within the scope of employment” term and cited the Restatement (Second) of Agency §228 (1958) which provides “(1) conduct of a servant is within the scope of employment if, but only if: (a) it is of the kind he is employed to perform; (b) it occurs substantially within the authorized time and space limits; [and] (c) it is actuated, at least in part, by a purpose to serve the master.” However, §228 was written to determine respondent superior liability of the employer for the tortious acts of the servant, and not with copyright issues in mind. Section 228 does not provide a bright line rule. **(1) Within scope of employment:** Genzmer v. Public Health Trust of Miami-Dad County, 219 F. Supp. 2d 1275 (S.D. Fla. 2002) (Created software on home computer, no additional compensation, program within job description, tested on employer’s computers, tailored to employer’s needs.); Miller v. CP Chemicals, Inc., 808 F. Supp. 1238 (D. S.C. 1993) (Supervisor not hired to write software, software authored on home computer, but incidental to his job.) **(2) Not within scope of employment:** Avtec Systems, Inc. v. Peiffer, 1994 U.S. Dist. LEXIS 16946 (E.D. Va. 1994), *aff’d*, 1995 U.S. App. LEXIS 25901 (4<sup>th</sup> Cir. 1995) (Program within job description, co-workers helped debug on company time, mainly created on home computer, no additional compensation except \$5,000 bonus.) Shaul v. Cherry Valley-Springfield Cent. Sch. Dist., 363 F.3d 177 (2d Cir. 2004) (High school math teacher’s lessons, tests and homework problems.) Vanderhurst v. Colorado Mountain College Dist., 16 F. Supp. 2d 1297 (D. Colo. 1998), *aff’d*, 208 F.3d 908 (10<sup>th</sup> Cir. 2000) (Professor’s class outline prepared at home, but college policies required such work and outline directly connected to job.) Quinn v. City of Detroit, 988 F. Supp. 1044 (E.D. Mich. 1997) (City Attorney created software to manage litigation on home computer, and spent many hours using it at work; however, writing software not within scope of employment and using and maintaining the software was done after program authored at home.) City of Newark v. Beasley, 883 F. Supp. 3 (D. N.J. 1995) (Police officer created materials at home used in public anti-theft education program.) Roeslin v. District of Columbia, 921 F. Supp. 793 (D.D.C. 1995) (Economist wrote software to automate data received by employer, not hired to write software.) **(b) “Incidental acts”** are within scope of employment. “An act incidental to an authorized act, although considered separately, it is an entirely different kind of act. To be incidental, however, it must be one which is subordinate to or pertinent to an act which the servant is employed to perform. It must be within the ultimate objective of the principal and an act which is not unlikely that such a servant might do.” Restatement (Second) of Agency §229 Comment B (1958). **(c) Estoppel.** If the employee permits the employer to become dependent on the employee’s work, the employee may be estopped from suing the employer for infringement. Carson v. Dynegy, Inc., 344 F.3d 446 (5<sup>th</sup> Cir. 2003). **(d) Specially commissioned works.** Works for hire also include a very restricted class of specially ordered or commissioned works if the parties expressly agree in a “written instrument signed by them” that the work shall be a work for hire. 17 U.S.C. §101.

<sup>94</sup> 17 U.S.C. §204(a); Dean v. Burrows, 732 F.Supp. 816 (E.D. Tenn. 1987) (endorsed check can qualify as a transfer document). This statutory requirement can be an unyielding snare. “Section 204(a)’s requirement, while sometimes called the copyright statute of frauds, is in fact different from a statute of frauds. Konigsberg Int’l, Inc. v. Rice, 16 F.3d 355, 357 (9<sup>th</sup> Cir. 1994). Rather than serving an evidentiary function and making otherwise valid agreements enforceable, under § 204(a) ‘a transfer of copyright is simply ‘not valid’ without a writing.’ *Id.*” Lyrick Studios, Inc. v. Big Idea Productions, Inc., 420 F.3d 388 (5<sup>th</sup> Cir. 2005). Statutory decrees trump the common law and common sense. Although performance of an oral agreement overcomes most “Statute of Frauds” rules, such as those requiring a writing to transfer title to real property, not even full performance of an oral transfer of copyright ownership defeats § 204(a) requirement for a “writing and signed by the owner.” Lyrick Studios, supra. Unwritten understandings or writings not containing the signatures of both parties are insufficient to rebut the Copyright Acts’ statutory presumption of ownership by the author. Miller v. C.P. Chemicals, Inc., 800 F.Supp. 1238 (S.C. 1992).

<sup>95</sup> “Transfer of ownership of any material object . . . does not itself convey any rights in the copyright embodied in the object . . .” 17 U.S.C. §202. This emphasizes the importance of distinguishing between the copyright right and the material object.

<sup>96</sup> A non-exclusive copyright license (a mere right to use) does not need to be in writing. A license can be oral. Kennedy v. National Juvenile Detention Ass’n, 187 F.3d 690 (7<sup>th</sup> Cir. 1999). One who orders a work may have an implied license to use the work for the purpose underlying the purchase agreement. Effects Assoc., Inc. v. Cohen, 908 F.2d 555 (9<sup>th</sup> Cir. 1990), *cert. denied*, 111 S.Ct. 1003 (1991); MacLean Assoc., Inc. v. Wm. M. Mercer-Meidinger-Hansen, Inc., 952 F.2d 769 (3<sup>rd</sup> Cir. 1992) (non-exclusive implied license to use only in its business to employer whose employee authored software outside of his scope of employment.) A wicked trap is that “an exclusive license” [even one for a limited term] is a “transfer of copyright ownership.” 17 U.S.C. § 101; Lyrick

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Studios, Inc. v. Bid Idea Productions, Inc., 420 F.3d 388 (5<sup>th</sup> Cir. 2005) subject to the 17 U.S.C. § 204(a) “writing and signed by the owner” requirement to be valid. Equitable doctrines such as reliance and partial performance do not render an unwritten such agreement valid. *Id.*

<sup>97</sup> While this will often be sufficient, a longer agreement enumerating each of the copyright rights transferred, pending causes of action, exclusive use, renewal, moral rights, (17 U.S.C. §§106, 106A, 203) rights of publicity and privacy Price v. Hal Roach Studios, Inc., 400 F. Supp. 836 (S.D. N.Y. 1975) and Price v. Wolrdivision Enterprises, Inc., 455 F.Supp. 252 (S.D. N.Y. 1978), *aff’d*, 603 F.2d 214 (2<sup>nd</sup> Cir. 1979) should be signed to safely get all rights. Cassway vs. Chelsea Historic Properties, L.L.P., 26 U.S.P.Q.2d 1791 (E.D. Pa. (1993) (Architect’s agreement that drawings were “property” of developer insufficient to transfer copyright rights.) Playboy Enterprises, Inc. v. Duman, 831 F.Supp. 295 (S.D. N.Y. 1993), *aff’d*, 42 U.S.P.Q.2d 1511 (assignment of “all right, title and interest” in paintings did not transfer ownership in the copyright to the paintings). A claim of co-ownership of copyright occurs when express repudiation is communicated to the claimant and is barred if not asserted within three years. Zuill v. Shanahan, 80 F.3d 295 (9<sup>th</sup> Cir. 1996).

<sup>98</sup> As always, there are exceptions. Some items protected by copyright in the U.S. are protected in foreign countries, if at all, by design patents or as industrial designs which must be filed within statutory periods. 1 Nimmer, supra Note 25, §5.05[B][2][C]. The Berne Convention, the international copyright treaty, requires member states to protect individually created works for at least life plus 50 years. Thus, for example, many Elvis Presley recordings are freely copied in Canada and Europe.

<sup>99</sup> “The one [transfer] executed first prevails if it is recorded [in the Copyright Office] . . . . Otherwise, the later transfer prevails if recorded first . . . .” 17 U.S.C. §205(d). Prior licenses given by the author are not affected by an assignment. There is no one month grace period within which to file the assignment to you to protect against the assignor validly licensing to protect against the assignor validly licensing to a good faith licensee. Until the assignment is recorded, the assignor can continue to grant licenses. Broadcast Music, Inc. v. Staenberg, 36 U.S.P.Q.2d 1495 (C.D. Cal. 1995) (security interest in copyright right that is not recorded in Copyright Office is not perfected).

<sup>100</sup> A copyright right assignee may lose the copyright back to the author or his successors. (a) “author’s termination interest.” This is a right to terminate copyright grants between the 35<sup>th</sup> to 40<sup>th</sup> year of the grant for grants executed by the author after January 1, 1978. 17 U.S.C. §203. Transfers executed before January 1, 1978, may be terminated between the 56<sup>th</sup> and 61<sup>st</sup> year from the date the copyright was originally secured. 17 U.S.C. §304. (b) “Renewal.” Copyrights in pre-1978 works are renewed to the author or his successors (i.e., not the assignee) 28 years after being secured unless the renewal right was specifically assigned by the then current owner of the renewal right when it matures (i.e., an author’s assignment of the renewal right dies with the author if he dies before renewal comes up). 1964-1978 works are automatically renewed. (c) its Complicated. There may be an attorney somewhere who can recite from memory every aspect of renewal and author’s termination interest rights under §§ 203 and 304, who the proper claimants are, which copyright act amendment applies, etc., with respect to all possible variations and in each affected country and can state a comprehensive rule to resolve such issues, but in his decades of copyright law practice the author has not yet met such a person. If any works more than 25 years old are commercially important these issues should be taken to a copyright attorney together with all of your applicable facts.

<sup>101</sup> Alcatel USA, Inc. v. DGI Technologies, Inc., 166 F.2d 772 (5<sup>th</sup> Cir. 1999); Lasercom of America, Inc. v. Reynolds, 15 U.S.P.Q. 1846 (4<sup>th</sup> Cir. 1990) (Restraint on licensee creating new software invalidated copyright.) *See*, Atari Games Corp. v. Nintendo of America, Inc., 24 U.S.P.Q.2d 1145 (Fed. Cir. 1992).

<sup>102</sup> The elements of the tort of misappropriation are “(i) the creation of plaintiff’s product through extensive time, labor, skill and money, (ii) the defendant’s use of that product in competition with the plaintiff, thereby gaining a special advantage in that competition (i.e., a ‘free ride’) because defendant is burdened with little or none of the expense incurred by the plaintiff, and (iii) damage to the plaintiff.” Int’l News Serv. V. Associated Press, 39 S.Ct. 68 (1918); United States Sporting Products, Inc. v. Johnny Stewart Game Calls, Inc., 865 S.W.2d 214 (Tex. App.–Waco 1993, writ denied), (Plaintiff awarded damages due to defendant’s copying from plaintiff’s game call tape to create a competitive game call tape. Perhaps the action was not preempted by copyright law because the bird calls were never copyrightable subject matter.), National Basketball Association v. Motorola, 105 F.3d 841 (2<sup>nd</sup> Cir. 1997) (No “authorship” by anyone in the basketball game itself only its broadcast. Thus, defendant’s real-time broadcast of NBA game scores was not actionable), *contra*, United States Golf Assn. v. Arroyo Software Corp., 40 U.S.P.Q.2d 1840 (Calif. Sup. 1996), *aff’d*, 81 Cal.Rptr.2d, 708 49 U.S.P.Q.2d 1979 (Cal.Ct.App. 1999) (use of USGA handicapping system a misappropriation). A misappropriation claim will not survive copyright pre-emption unless the claim includes an “extra element” not found in a copyright claim against the complained of act. Butler v. Continental Airlines, 31 S.W.3d 642 (Tex. App.–Houston 2000, \_\_\_\_\_) (misappropriation of programs preempted),

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*contra*; Grosso v. Miramax Film Corp., 383 F.3d 965 (9<sup>th</sup> Cir. 2004) (state implied contrast claim for use of copyrighted script not preempted); Alcatel USA, Inc. v. DGI Technologies, 166 F.3d 772 (5<sup>th</sup> Cir. 1999); Data Gen. Corp. v. Grumman Sys. Support Corp., 795 F.Supp. 501 (D. Mass. 1992) (conversion claim that defendant took physical possession of copies of software not preempted); A business may be liable for falsely describing the origin of its goods or services or for reverse passing off. *See*, Trademarks, *supra*.

<sup>103</sup> “Works of visual art” are “a painting, drawing, print or sculpture” or “a still photographic image produced for exhibition purposes only” restricted to such 200 or fewer limited edition-such works that are individually signed and numbered by the author. 17 U.S.C. §101. Moral rights include preventing modification of the work, claiming authorship of it, and preventing a non-author’s name being used as the author unless disclaimed in writing. Any waiver must be signed by the author and specifically identify the work and the uses of that work to which the waiver applies, and the waiver applies only to the work and uses so identified. 17 U.S.C. §106A(e). Incorporation of a visual art work into a building, i.e., mosaic wall or floor, sculptures, carvings, etc., may prevent alteration or destruction of the building. Carter v. Helmsley-Spear, Inc., 861 F.Supp. 303 (S.D. N.Y. 1994), *reversed on other grounds*, 77 F.3d 77 (2d Cir. 1995), *cert. denied*, 116 S.Ct. 1824 (1996) (subject lobby sculpture a work for hire). For works created after June 1, 1991, moral rights end upon the death of the last surviving author. This preempts portions of several state laws. Some similar protections are afforded authors under 15 U.S.C. §1125(a). Gilliam v. American Broadcasting Co., 538 F.2d 14 (2<sup>nd</sup> Cir. 1976) (Monty Python prevented broadcast of edited show).

<sup>104</sup> Electronic Theft Act.

<sup>105</sup> *Compare*, Goodman v. Lee, 78 F.3d 1007 (5<sup>th</sup> Cir. 1996) (Ten years under state law), *with*, Zull v. Shanahan, 80 F.3d 1366 (9<sup>th</sup> Cir. 1996) (Three years under Copyright Act).

<sup>106</sup> 35 U.S.C. §101. Generally, it must actually work and not be frivolous or immoral. Working models are not required except for perpetual motion machines. Although an abstract idea or mathematical formula is not patentable subject matter (“a method of adding two numbers to produce a sum”), anything used to produce a practical result (“a method of adding two numbers to produce the sum owed by a customer”) is “useful.”

<sup>107</sup> 35 U.S.C. §102. Generally, an invention is “novel” if not previously known to others before it was conceived by the applicant. This is covered more fully under Rule #8.

<sup>108</sup> 35 U.S.C. §103. The patent examiner assigned to examine your patent application must be convinced that the invention was non-obvious. His adverse opinion can be appealed. In patent infringement lawsuits, whether an invention is obvious is a question for the jury after considering of obviousness rests on four factual inquiries (1) scope and content of the prior art; (2) differences between the prior art and the claimed invention; (3) level of skill in the art; and (4) objective evidence of non-obviousness (“secondary considerations”), Graham v. John Deere Co., 86 S.Ct. 684 (1966). These four factual inquiries are prefaced by two questions of law (1) determination of the metes and bounds of the claimed invention; and (2) the scope of the prior art. The test of non-obviousness is made as of the date of invention and is ultimately subjective. The hypothetical “person having ordinary skill in the art to which said subject matter pertains” Id. is a person who regularly makes such items, not an expert in the field or a mere consumer of the item. Standard Oil Co. v. American Cyanamid Co., 774 F.2d 448, 454 (C.A.F.C. 1985). The skills of the actual inventor are irrelevant. American Standard, Inc. v. Pfizer, Inc., 722 F.Supp. 86 (D. Del. 1989). The hypothetical inventor is presumed to be aware of all prior available knowledge in areas which are reasonably relevant to the problem the inventor solved. In re Antle, 444 F.2d 1168 (C.C.P.A. 1971).

<sup>109</sup> While this is a fair statement in an educational outline, it is not accurate. Abstract ideas are not patentable and 35 U.S.C. § 101 limits patentable subject matter to four categories: processes, machines, articles of manufacturer and compositions of matter. The form of the specific patent claim rather than the nature of the original idea determines whether or not § 101 invalidates the claim. Restated, even if the original idea is an abstract idea, if the claim is written in a form in which the claimed invention transforms, operates on, or is embodied in § 101 statutory subject matter, then the claimed invention is patentable. In Re Bilski, \_\_\_ S.Ct. \_\_\_ (2010), (to be patentable under § 101, a claimed process must be tied to a particular machine or apparatus, or transform a particular article into a different state or thing.) For example, In re Comiskey, \_\_\_ F.3d \_\_\_ (Fed. Cir. 2007) considered the patentability of a “method for mandatory arbitration resolution . . . .” Claims which did not include computer technology limitations to implement the method lacked patentable subject matter, while other claims directed to implementing the method via “modules” were valid subject matter. Another illustrative case is In re Nuijten, \_\_\_ F.3d \_\_\_ (Fed. Cir. 2007) in which claims to an encoded signal were invalidated because they did not recite an action, and the signal was not one of § 101’s four categories of patentable subject matter. If the claims had been drafted to the processes and machines which produced the signal, those claims would have been patentable. Bottom line: Don’t worry about § 101. That is what patent attorneys are for.

<sup>110</sup> “Patentability shall not be negated by the manner in which the invention is made.” 35 U.S.C. §102; In re Hogan and Banks, 559 F.2d 595, 606 (C.C.P.A. 1977).

<sup>111</sup> Plants are patentable as utility patents in addition to the distinct protections afforded by the Plant Protection Act, 35 USC §161-164 and the Plant Variety Protection Act, 7 USC §2321 *et seq.*; JEM AG Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc., 122 S.Ct. 593 (2001).

<sup>112</sup> A U.S. utility patent last 20 years from the earliest filing date relied on for priority 35 U.S.C. §154. (Subject to timely payment of maintenance fees.) not including a provisional application's priority date. 37 C.F.R. §153(b)(1).

<sup>113</sup> Design patents are inexpensive to obtain and protect a market leader against knock-offs that copy novel non-functional features. Damn Things From Denmark v. Russ Berrie & Co., 290 F.Supp. 548 (D.N.J. 2001); AVIA Group Int'l, Inc. v. L.A. Gear California, Inc., 853 F.2d 1557 (Fed. Cir. 1988) (Injunction against L.A. Gear selling running shoes similar to Reebok's design patented shoes.) An accused design infringes a design patent if, to the ordinary observer, (1) the two designs are substantially the same, and (2) the accused design appropriates the points of novelty of the design patent. Contessa Food Products, Inc. v. Conagra, Inc., 62 U.S.P.Q.2d 1065 (CAFC 2002) ("The 'point of novelty' test is distinct from the 'ordinary observer' test and requires proof that the accused design appropriates the novelty which distinguishes the patented design from the prior art." . . . The patentee must prove both substantial similarity and appropriation of the 'point of novelty.' While Lee v. Dayton-Hutson, 838 F.2d 1186 (Fed. Cir. 1988) makes clear that the doctrine of equivalents applies to design patents, the point is best made by examining the designs published in Gorham v. White, 81 U.S. 571 (1871). An article may sometimes be protected via both or either a copyright registration and a design patent.

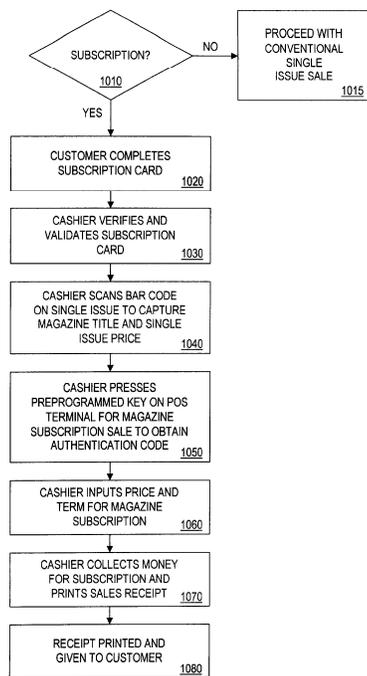
<sup>114</sup> Design patent's 14-year life runs from the date of grant, not the date of filing. 35 U.S.C. § 173.

<sup>115</sup> A business method patent is a utility patent that relates in some way to a method of doing business --- whatever that means. There is no precise line drawing definition of a business method patent. Business Method patents are: treated differently in the Patent Office (Business Methods White Paper, USPTO, at <http://uspto.gov/web/menu/pmethod>); subject to a "prior user defense," (§273(b)(1) if inventor the business method inventor delays filing a patent application for a year and until after someone else starts using the method); and not allowed in most foreign countries. (European Patent Convention Article 52(2)(C). Canada, Examples of Non-Statutory Subject Matter, Section 16.04, at [http://strategis.ic.gc.ca/sc\\_mrksv/cipo/patents/mopop/ch16-e.pdf](http://strategis.ic.gc.ca/sc_mrksv/cipo/patents/mopop/ch16-e.pdf).) You can view computer-implemented business inventions, which have received the most publicity, in U.S. classification area 705.

<sup>116</sup> U.S. Pat. No. 5,794,207.

<sup>117</sup>

U.S. Patent      Jul. 20, 1999      Sheet 10 of 17      5,926,796



<sup>118</sup> U.S. Pat. No. 5,851,117 (issued 12/22/98).

<sup>119</sup> The PTO has vast amounts of information at [www.uspto.gov](http://www.uspto.gov). Anyone interested in any aspect of patents, whether they are inventors, investors, business owners, etc., should set aside an unhurried Saturday morning to explore the PTO website and play several “search and find” and “what if” games there. Other useful internet sites are: <http://ep.espacenet.com> - best single site for non-USA patents; <http://ipdl.wipo.int> - access to the PCT (Patent Cooperation Treaty) database (Sign in as “guest”); [www.hg.org](http://www.hg.org) - links to many IP sites; [www.megalaw.com](http://www.megalaw.com) - links to several nations’ patent offices.

<sup>120</sup> “A right to exclude others from making, using, offering for sale, or selling the invention throughout the United States.” 35 U.S.C. § 154. 35 U.S.C. § 271(a). Slimfold Mfg. Co. v. Kenkead Industries, Inc., 932 F.2d 1453 (Fed. Cir. 1991) (“Intentional ‘designing around’ the claims of a patent is not by itself a wrong which must be compensated by invocation of the doctrine of equivalents. Designing around patents is, in fact, one of the ways in which the patent system works to the advantage of the public in promoting progress in the useful arts, its constitutional purpose . . .”).

<sup>121</sup> **a. Scope Not Defined by Disclosure.** The scope of a patent’s exclusive rights is defined by its claims “particularly pointing and distinctly claiming the subject matter which the applicant regards as his invention.” 17 U.S.C. §112. A trap for the general public is that the scope of a patent’s claims can be broader than the preferred embodiment literally disclosed in the patent’s drawings and specification as long as the claim’s broader scope is enabled by the disclosure. “[A]lthough the specification often describes very specific embodiments of the invention, we have repeatedly warned against confining the claims to those embodiments.” Phillips v. AWH Corp., 415 F.3d 1303, at 1325 (Federal Cir. 2005); Rexond Corp. v. Laitram Corp., 274 F.3d 1336 (Fed. Cir. 2001) (“specifications teach, claims claim”). **(b) Literal Infringement.** “[F]or a court to find infringement, the Plaintiff must show the presence of every element or its substantial equivalent in the accused device.” London v. Carson Pirie Scott & Co., 946 F.2d 1534, 1538 (Fed. Cir. 1991) (the “all-elements” or “all-limitations” rule). Literal correspondence of each element of a claim with the accused device. Compliance with the all-elements rule requires “a determination of the relationship between the combination claimed and the components of the accused device or process, element by element . . .” “first identifying the claim elements . . . and then determining the correspondence of these elements, or limitations, with the components or limitations, with the components or steps of the accused device or process.” Festo Corp. v. Shoketsu Kinzoku Kogyu Kabushiki Co., 72 F.3d 857 (Fed. Cir. 1999), *reversed on other grounds*, 122 S.Ct. 1831 (2002). **(c) Claim Construction.** Claim construction is analogous to real property law deed construction. Decades of court decisions are relied on by the patent attorneys who write and courts who read claims. Phillips v. AWH Corp., 376 F.3d 1382 (Fed. Cir. 2005) *en banc* (Claim construction must be consistent with the intrinsic evidence, *i.e.* claim language, specification and prosecution history, and, if needed, informed by extrinsic evidence, *i.e.* dictionaries, treatises and experts to help the court understand the technology, and determine a person of ordinary skill in the art.) Whether an accused device infringes a claim is often determined by a Byzantine set of grammatical and linguistic rules. For example, “a single claim which claims both apparatus and the method steps of using the apparatus is indefinite . . . [and invalid].” IPXL Holdings LLC v. Amazon.com, Inc., 430 F.3d 1377 (CAFC 2005). ScanDisk Corp. v. Memorex Products, Inc., 415 F.3d 1278 (Fed. Cir. 2005) (“includes” is equivalent to “comprising”). **(d) Described but not claimed.** The counterpart to the rule that the scope of claims is not limited to the disclosed preferred embodiment is that disclosed but unclaimed inventions are dedicated to the public and are not available to the patentee as an equivalent of a claimed element. Johnson & Johnson Assocs., Inc. v. R.E. Service, 126 F.3d 1046 (Fed. Cir. 2002) (*en banc*). Prima Tek II LLC v. Pollypop S.A.R.L., 318 F.3d 1143, 1148 (Fed. Cir. 2003) (“Examination of the written description is necessary to determine whether the patentee has disclaimed subject matter or has otherwise limited the scope of the claims.”) PSC Computer Prods, Inc. v. Foxconn Int’l, 355 F.3d 1353 (Fed. Cir. 2004). **(e) Prosecution history estoppel.** Amendments which narrow a claim’s scope usually preclude use of the doctrine of equivalents to expand claim scope unless the patentee shows the amendments do not create an estoppel, that the accused device was an “unforeseeable equivalent” beyond a fair interpretation of what was surrendered, or that the subject equivalent has only “a peripheral relation to the reason the amendment was submitted.” Festo Corp. v. Shohesta Kinzoku Kogyu Kabuskiki Co., 122 S.Ct. 1831 (2002). **(f) Markman Hearing.** Where the meaning of the claim, *i.e.*, the outer parameters of each element, is unclear, the judge resolves the uncertainty by instructing the jury concerning what it means. Markman v. Westview Instruments, Inc., 52 F.3d 967 (Fed. Cir. 1995), *aff’d*, 519 U.S. 370 (1996). In contested cases, no one is sure what a claim means until the last court decision construing the claims is unappealable.

<sup>122</sup> **Equivalence Infringement.** Infringement is also found if there is equivalent correspondence due to “insubstantial” differences between each element of the claim and the accused device. Equivalence is shown by comparing the function/way/result of the subject claim element with the function/way/result of the corresponding element of the accused device. Warner-Jenkinson Co., Inc. v. Hilton Davis Chemical Co., 117 S.Ct. 1040 (1997) (Accused filtration process run at 5.0 pH infringed claimed “at a pH from approximately 6.0 to 9.0” process because

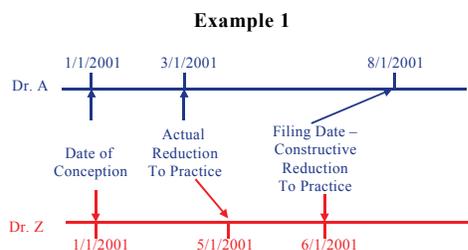
(a) although the upper pH limit was included to distinguish the claim from the prior art, there was no apparent reason for including the lower pH limit, and (b) even a claim element narrowed by 35 U.S.C. §112(6) has an equivalence scope). *Compare, Corning Glass Works v. Sumitomo Elec. U.S.A., Inc.*, 868 F.2d 1251 (Fed. Cir. 1989), with, *Penwalt Corp. v. Durand-Wayland, Inc.*, 233 F.2d 931 (Fed. Cir. 1987) (*en banc*), *cert denied*, 485 U.S. 961 (1988).

<sup>123</sup> AIA §102 implements first-to-file priority effective March 16, 2013, producing the following different results relative to current law. **Example 1:** Inventor A invents March 1 and files his patent application September 1. Inventor B invents May 1 and files his application July 1. Current law: A gets the patent because A invented first. AIA: B gets the patent because B filed first. **Example 2:** Same as Example 1, except A also publishes an enabling article about his invention on his professional scientific association’s web site April 1. Current law: A gets the patent because A invented first. AIA: A gets the patent because A’s enabling publication within a year of A’s filing predates B’s filing. However, because most foreign countries require “absolute novelty,” (discussed below), no one can get a patent on the invention in foreign countries. **Example 3:** Same as Example 1, except inventor A immediately secretly uses the invention to improve products he is selling. Current law: B’s patent is enforceable against everyone in the US, including A. AIA: B’s patent is enforceable against everyone in the U.S. except A, because A commercialized the invention before B filed. Permutations concerning patents with priority dates which straddle March 16, 2012, are beyond the scope of this paper.

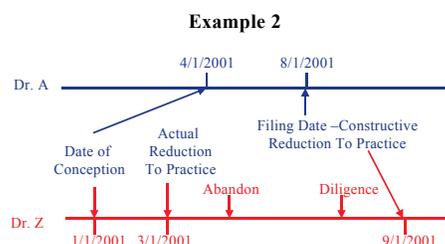
<sup>124</sup> Filing a patent application is a constructive reduction to practice. Thus, the sooner your patent application is filed, the more likely you are to be the senior party. A device may be so simple, such as a razor blade, that a drawing will reduce the invention to practice. Generally, however, the invention must be physically assembled, produced or performed, and tested to demonstrate its usefulness for its intended purpose. *Corona Cord Tire Co. v. Donovan Chem. Corp.*, 276 U.S. 358, 48 S.Ct. 380 (1928). Reduction to practice in a foreign country is inapplicable. 35 U.S.C. §104.

<sup>125</sup> There is no set standard to measure diligence. The nature of the invention, the inventor’s situation, the length of time between conception and reduction of practice, the inventor’s financial condition, the amount of work and money needed to produce an actual reduction to practice and his efforts to accomplish this purpose are all considered. The activity relied on to establish diligence is activity directed toward securing either an actual reduction to practice of the invention or a constructive reduction of practice of it, *i.e.*, filing a patent application. Diligence must be continuous during the critical period – *i.e.* from just prior to the second conceiver’s invention until the first conceiver’s reduction to practice. Any delay must be shown to be an excusable delay.

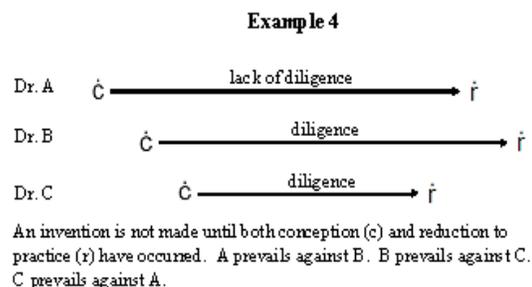
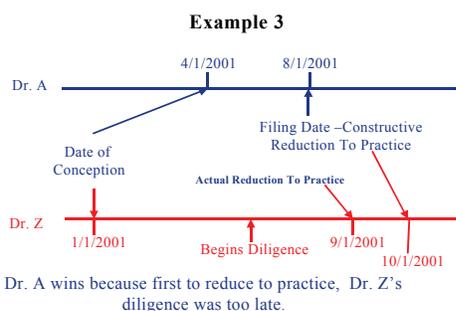
<sup>126</sup> When different inventors file patent applications for the same invention a complex costly lawsuit called an interference is started by the Patent Office. Since filing a patent application is a constructive reduction to practice, the first to file is the senior party. If the senior party’s and junior party’s applications are co-pending, the junior party must prove his earlier date by a preponderance of the evidence. If the senior party’s patent issued before the junior applicant filed, the junior party must prove his earlier date by clear and convincing evidence. *Reese v. Hurst*, 661 F.2d 1222 (C.C.P.A. 1981). The first to conceive generally gets the patent unless the first to conceive both failed to use reasonable diligence to reduce the invention to practice and failed to reduce it to practice before the other party’s date of conception. 35 U.S.C. §102(g) (“A person shall be entitled to a patent unless – . . . (g) before the applicant’s invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention, there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.”) For complex inventions, such as biological systems, the scope of the invention is confined to the extent of its experimental success.



Dr. A wins because he was the first to reduce to practice, - if Dr. A can prove it.



Dr. A wins because Dr. Z abandoned.



These results all depend on Dr. A having proper proof.

<sup>127</sup> Conception and reduction to practice dates cannot be proven by the uncorroborated testimony of the inventors. Example: If you invent on January 1, 2004 and a third party witnesses your invention for you on July 1, 2004, then your earliest provable date of invention is July 1, 2004. If some other inventor can prove his invention date of March 1, 2004, then he gets the patent and you will be an infringer. A proper lab notebook can create the needed corroboration for patentability, avoid ownership disputes and prove theft. It is silly to invest time and money on research without demanding that lab notebooks be properly kept. See, the text and footnotes for Smart Inventors, *supra*.

<sup>128</sup> 17 U.S.C. § 103. A single offer to sell, whether by the inventor or a third party, is enough to start the one year running. There are several elements to the “on-sale bar.” (a) **What is the invention.** To even begin an analysis, the patent’s claims must be construed to determine what the invention is, *i.e.* what the claims’ limitations are. “A prior art reference must describe . . . [the] claimed invention sufficiently to have placed it in possession of a person of ordinary skill in the field of the invention.” Helifix, Ltd. v. Blok-Lok, Ltd., 208 F.3d 1339, 1346 (Fed. Cir. 2000). This is a claim by claim determination. Dana Corporation v. American Axle & Mfg. Inc., 279 F.3d 1372, 1376 (Fed. Cir. 2002). (b) **Ready for patenting.** The invention must “be ready for patenting” either by reduction to practice, for example, by a physical sample embodying the invention or by proof that “the inventor had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention,” for example, giving drawings to the prospective first customer. Pfaff v. Wells Electronics, Inc., 119 S.Ct. 304 (1998). (c) **Commercial sale.** Dancing cheek to cheek with a prospective buyer, promoting the invention, soliciting customer advice, etc., do not comprise an “offer to sell” unless the activities rise to the level of an offer to sell which, under the Uniform Commercial Code, could have been accepted to form an enforceable agreement. “Only an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 1.02(b).” Group One Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041 (Fed. Cir. 2001). A sale is not a “commercial” sale, if it was primarily for experimental purposes rather than profit. (d) **Sale of “the invention.”** Sale of “the invention” means sale of “the device of the invention” and not “the right to patent protection” covering the invention. Thus, an inventor can offer to license or sell or actually license or sell the patent rights to his invention without triggering the one year grace period if he is careful not to offer any prototypes and to not offer to create devices in the transaction. Moleculon Research Corporation v. CBS, Inc., 594 F.Supp. 1420 (D. Del. 1984). (e) **Experimental use.** An experimental sale or use does not trigger the on-sale bar. Allen Engineering Corp. v. Bartell Industries, Inc., 299 F.3d 1336, 1353 (Fed. Cir. 2002) (Exhaustive list of factors used to determine if sale was experimental). A third party’s use is not experimental and non-public unless it is under the inventor’s control and kept from public disclosure. New Railhead Mfg. L.L.C. v. Vermeer Mfg. Co. and Earth Tool L.L.C., 298 F.3d 1290 (Fed. Cir. 2002). (Underground use of oil tool by buyer was not experimental because buyer did not sign confidentiality agreement.) (f) **Foreign rules.** The laws of foreign countries are different regarding each of these issues.

<sup>129</sup> The one year period from when the inventor makes his invention known or commercially uses it is not the only relevant time period. 35 U.S.C. §102 and §103 include other events which may preclude patentability. Your idea is not patentable if it (1) was invented, known, or used by others or described in a printed publication anywhere before you invented it, 35 U.S.C. §102(a) and (g); (2) is patented, described in a printed publication, put into public use or on sale more than one year before you file your patent application, 35 U.S.C. §102(b)(d); (3) is described in a patent application filed before your application and the other person’s application is granted as a patent, 35 U.S.C. §102(e); or (4) you abandon your idea, 35 U.S.C. §102(c). Some of these events may arise due to others acting without your knowledge. Thus, any given day may be the last day to file the application within the time allowed.

<sup>130</sup> The European Patent Office, for example, will use as prior art against the application “everything made available to the public by means of a written or oral description, by use, or in any other way, before the date of filing of the European patent application.” Thus, if the invention is made available to the public before the date of the earliest patent the inventor can claim priority to, the invention cannot be protected by foreign patents. If the foreign patent protection is not available unless the U.S. application was filed prior to the invention’s public disclosure and priority to it timely claimed. If foreign patents are desired, the PCT application designating other countries must be filed within the earlier of one year from filing the provisional application or non-provisional.

<sup>131</sup> This amount can vary from a few thousand dollars to tens of thousands of dollars depending on many factors – How complicated is it? How important is it? Will there be foreign prosecution? etc.

<sup>132</sup> Falsely claiming that something is patented violates both patent and trademark law. M. Eagles Tool Warehouse, Inc. v. Fisher Tooling Co., 68 F.S.2d 494 (N.J. 1999).

<sup>133</sup> In re Gostell, 872 F.2d 1008, (Fed. Cir. 1989) For safety, an omnibus claim should be included in a provisional if international protection is desired; Allopurinol, Fed. Rep. German Supreme Court (1974). **(b) Dangerous Provisionals.** The dangers of provisionals are highlighted by New Railhead Mfg. L.L.C. v. Vermeer Mfg. And Earth Tool Co. L.L.C., 298 F.3d 1290 (Fed. Cir 2002). The patentee filed a provisional, followed it at the end of its year with a formal utility application, a patent issued, infringement ensued, the patentee obtained a verdict for tens of millions of dollars, but then lost it all. While the provisional described the invention of other claims, it did not describe the invention of the infringed claim (the infringed claim had an element not found in the provisional) and a bar date preceded the utility application. The patentee argued that if one made the invention in accordance with the provisional’s disclosure, the invention of the infringed claim would be apparent. The Federal Circuit held that while such evidence could satisfy the enablement requirement, the provisional did not satisfy the written description requirement, holding, “[t]he adequacy of the written description (i.e., the disclosure) is measured from the face of the application; the requirement is not satisfied if one of ordinary skill in the art must first make the patented invention before he can ascertain the claimed features of the invention.” New Railhead shows (1) the requirements for a good patent application discussed herein are equally applicable to a provisional application; and (2) the circular nature of best practices patent drafting; the drafter formulates the invention’s gist or magic and drafts a broad claim which encompasses it, a specification is drafted to support the claim, which incites thoughts about alternative structures and methods, claims are drafted to cover these, and the cycle repeats. This cycle is expensive in terms of patent attorney time, but the patent applicant gets what he pays for in terms of the patent’s value if litigated. The more time spent drafting, the stronger the resultant patent. However, time is money when attorneys are involved so the price paid for an application has a rough correlation to how well the patent will protect the invention in the litigation crucible.

<sup>134</sup> This amount can vary from a few thousand dollars to tens of thousands of dollars depending on many factors – How complicated is it? How important is it? Will there be foreign prosecution? etc.

<sup>135</sup> 1. Applications are not published if a non-publication request is filed. A non-publication request can only be filed if the applicant is not going to seek international protection.

2. Some countries permit national phase filings within 31 months of the earliest PCT priority date.

<sup>136</sup> Quigg, The 200<sup>th</sup> Year Under Article I, Section 8 (Part I), 69 J. Pat. & Trademark Off. Soc’y 685 (1987) (The average pendency was 22 months.)

<sup>137</sup> 35 U.S.C. §122.

<sup>138</sup> 35 U.S.C. §292 (Penalties for false marking)

<sup>139</sup> A patentee has a right to a reasonable royalty from the date his application is published (US or PCT) from “infringers” if he gives the infringer actual notice of the published application and what acts infringe. 35 U.S.C. §154(d). An applicant can request early publication. 35 U.S.C. §122(b).

<sup>140</sup> 35 U.S.C. §281; 35 U.S.C. §100 (definition of “patentee”).

<sup>141</sup> Whether a patent application sufficiently teaches the claimed invention or is invalid because it requires “undue experimentation” depends on the following factors: “(1) the quantity of experimentation necessary, (2) the amount of direction or guidance presented, (3) the presence or absence of working examples, (4) the nature of the invention, (6) the relative skill of those in the art, (7) the predictability or unpredictability of the art, and (8) the breadth of the claims.” Crown Operations Inter., Ltd. v. Solutia, Inc., 289 F.3d 1367 (Fed. Cir. 2002).

<sup>142</sup> “A best mode violation may occur if the disclosure of the best mode is so objectively inadequate as to effectively conceal the best mode from the public” even if the disclosure’s inadequacy was unintentional. U.S. Gypsum Co. v. Nat’l Gypsum Co., 74 F.3d 1209 (Fed. Cir. 1996).

<sup>143</sup> 37 C.F.R. §§1.56, 1.97, 1.98 (“Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability . . . .” 37 C.F.R. §1.56(a).

<sup>144</sup> Topliff v. Topliff, 145 U.S. 156, 171 (1892). In addition to the claim drafting rules discussed above, for any application, provisional or non-provisional, to give its owner a “priority date” (a term of art), as contrasted with mere proof of conception of whatever is disclosed, it must have a [1] “**written description** of the invention and of the manner and process of making and using it, [2] in such full clear, concise, and exact terms as to **enable** any person skilled in the art to which it pertains, . . . to make and use the same, and [3] shall set forth the **best mode** contemplated by the inventor of carrying out his invention” 35 U.S.C. §112, and [4] “the applicant shall furnish a **drawing** where necessary for understanding of the subject matter sought to be patented.” 35 U.S.C. §§104, 111, 112, 113, 120; 37 C.F.R. §1.131.

<sup>145</sup> See the discussion in the text and endnotes concerning disclosure requirements that must be met for a provisional to provide a priority date to the individual claims of the subsequent utility application. These are treacherous waters, particularly since inventions are often evolving at this stage. Inventors are not professional patent draftsmen, do not have the training and experience of a patent attorney and risk entirely wasting their invention’s potential by doing their own patent drafting. Common failings of inventor written provisionals are (1) insufficient detail, (2) failing to consider and fully describe alternative structures and methods which use the invention’s concept, even suboptimal ones, and (3) failure to consider and apply the invention’s concept to fields different from the field of the problems the invention is intended to address. These failings may rob the provisional of much of its potential value. 35 U.S.C. §31-3; 37 C.F.R. §§10.1 - 10.18 (1987). An attorney who helps an inventor prepare the inventor’s own application has engaged in the unauthorized practice of law even though the attorney discloses to the inventor that he is not registered to practice before the Patent Office and does not personally file anything with the Patent Office. In Re Amalgamated Development Co., 375 A.2d 494, 189 U.S.P.Q. 192 (D.C. Cir. 1977).

<sup>146</sup> An idea is definite and permanent when the inventor has a specific, settled idea, a particular solution to the problem at hand, not just a general goal or research plan he hopes to pursue. Persons with ordinary skill in the art must be able to reduce the invention to practice without undue experimentation. Burroughs Welcome Co. v. Barr Labs. Inc., 40 F.3d 1223 (Fed. Cir. 1994). Patent rights attach only when an idea is so far developed that the inventor can point to a definite, particular invention. Id. at 1919. Thus, conception analysis necessarily turns on the inventor’s ability to prove when he described his invention with particularity. Until he can do so, he cannot prove possession of the complete mental picture of the invention. Conception in a foreign country is inapplicable, so the invention must be reduced to practice in the U.S. to get U.S. rights (or file a patent application). The inventor need not know that his invention will work for conception to be complete. Discovery that it works is part of reduction to practice. The problem is that the mental act of conception must be corroborated (discussed infra.). Inventorship is determined solely from the invention defined by the patents’ claims—not by the invention is described in the patents’ specification. Joint inventorship may be different at (1) initial conception; (2) conception of improvements; (2) drafting the specification; (3) the claims as submitted; (4) the claims as amended, and (5) the claims as issued. Decisions concerning inventorship at each stage may be second guessed years later by a jury, a judge, and an appellate court, each working on different facts and perceptions. An assignee of an inventor’s invention can file the patent application in the inventor’s name. 38 U.S.C. §118. A false claim to inventorship may create liability to the true inventor. Repap Enterprises, Inc. v. Kamyr, Inc., 27 U.S.P.Q.2d 1685 (E.D. Penn. 1993).

<sup>147</sup> Joint inventorship raises difficult issues. All inventors must be listed as joint patentees in the patent application. 35 U.S.C. §§102(b), 116. The evidence must establish that the inventor made a “contemporaneous disclosure that would enable one skilled in the art to make the invention.” Tavory v. NTP Inc., \_\_\_ F.3d \_\_\_ (Fed. Cir. 2008). An insignificant contribution of knowledge known to one of ordinary skill in the art is insufficient to make a contributor a co-inventor. Hess v. Advanced Cardiovascular, 106 F.3d 976 (Fed. Cir. 1997). (Contribution of new concepts to two of 55 claims in a patent made the contributor a joint patentee.) Ethicon, Inc. v. U.S. Surgical Corp., 135 F.3d 1917 (Fed. Cir. 2001). “To determine whether [a person] made a contribution to the conception of the subject matter of [a claim], the [court] must determine [what the person’s] contribution was and then whether that contribution’s role appears in the claimed invention...A contribution to one claim is enough.” Ethicon, Inc. v. U.S. Surgical Corp., 135 F.3d 1456, 1549-60 (Fed. Cir.), *cert denied*, 525 U.S. 923 (1998). One of the reasons this is important is that a joint inventor of a single claim may license the entire patent to third parties without accounting to the other joint inventors. “In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use or sell the patented inventions without the consent of and without accounting to the other owners.” 35 U.S.C. §262. Ethicon, Inc. v. U.S. Surgical Corporation, 135 F.3d 1917 (Fed. Cir. 2001).

<sup>148</sup> Federal law governs whether a patent assignment occurred, while state law determines construction of the agreement. DDB Technologies LLC v. MLB Advanced Media L.P., \_\_\_ F.3d \_\_\_ (Fed. Cir. 2008). Absent an express assignment, an implied-in-fact assignment may be found where the employee was hired or assigned to invent. Teets v. Chromalloy Gas Turbine Corp., 83 F.2d 403 (Fed. Cir. 1996) (Implied-in-fact contract by employee

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to assign patent rights found where employer directed and paid the employee to solve the problem and paid to refine the invention and for the patent application.) If the employee is an officer, a fiduciary duty to assign may be found. Grip Nut Co. v. Sharp, 150 F.2d 192 (7<sup>th</sup> Cir.) cert. denied, 326 U.S. 742 (1945). North Branch Prod., Inc. v. Fisher, 131 U.S.P.Q. (BNA) 135 (D.D.C. 1961) (principal shareholder, director, and general manager), *aff'd* 312 F.2d 880 (D.C. Cir. 1962), *cert. denied*, 373 U.S. 913 (1963). Otherwise “Shop rights” are harder for the employer to obtain and, once obtained, comprise much less than commonly believed. McElmurry v. Arkansas Power & Light Co., 995 F.2d 1576 (Fed. Cir. 1993). The principal requirement for finding a shop right is the employee’s implied consent that the employer can use the invention. Wommack v. Durham Pecan Co., 715 F.2d 962 (5<sup>th</sup> Cir. 1983).

<sup>149</sup> This “equation” is not original with this paper’s author. I would credit the source if I knew it.

<sup>150</sup> Medichem S.A. v. Rolabo S.C., 437 F.3d 1157 (Fed. Cir. 2006) (Inventor lost patent due to informality of his lab notebook.). Non-exhaustive list of guidelines: bound pre-numbered lined pages; all entries in permanent ink, consecutively entered, in chronological order, no lines or pages skipped; if any line is inadvertently skipped, a line is drawn through, initialed and dated; if corrections are made, they are initialed and dated; the inventor and a disinterested informed non-inventor periodically sign and date each page in permanent ink, the non-inventor writing “Read and understood, John Doe, June 3, 2007” at the end of the then current last entry; after a page has been signed and dated, no further information is inserted on that page; no erasures; no torn out pages; entries contain as much detail as possible including experiments, observations and conclusions; additional material such as photographs, charts, drawings are included or attached and identified in a supplemental signed and dated appendix; exclusive control of the notebooks are maintained by a trusted person. A lab notebook which does not meet these criteria may be inadmissible. Huang v. Caltech, 72 U.S.P.Q. 2d 1161 (C.D. Cal. 2004). You may want to scan and email notebook pages to a disinterested repository for additional verification. The widespread practice of mailing one’s self a certified letter with a description of the invention is unlikely to provide admissible corroboration. Its contents could be substituted and a self-addressed letter does not provide the required corroborating witness. A provisional application is more reliable means of proving date of conception.

<sup>151</sup> ThomasNet.com lists hundreds of prototype developers. (Click “Engineering & Consulting,” then “Designers,” then “Prototypes.”)

<sup>152</sup> Check out [www.startupventuretoolbox.com](http://www.startupventuretoolbox.com). Work with your local Small Business Development Center for free help. (in San Antonio, [www.iedtexas.org](http://www.iedtexas.org) (210) 458-2460) and your local inventors group, (in San Antonio, San Antonio Technology Advocates of San Antonio Inventors and Entrepreneurs at [www.alamoinventors.org](http://www.alamoinventors.org)). Several inventor associations have useful websites. United Inventors Association, [www.uiausa.org](http://www.uiausa.org).

<sup>153</sup> Being an inventor is about having a great idea. Creating a successful start-up business is about building and running an organization, complete with financing, marketing, logistics, personnel, suppliers, customers, etc. No one person is best for these several tasks. Few inventors are the best person to manage the several people who manage these several tasks. The inventor’s refusal to relinquish business control is a common cause of failure and heartbreak. Business success is unlikely without knowing likely customers, costs, sales price, demand and competition. The “25 Percent Rule” is a rule of thumb that an appropriate royalty is 25% of a licensee’s long term net profit. While never perfectly applicable to any particular deal and not even admissible in litigation, it incorporates useful concepts. Uncloc USA, Inc. v. Murosoft Corp., \_\_\_ F.3d \_\_\_ (Fed. Cir. 2011).

<sup>154</sup> One strategy is to (1) file a provisional application with a good disclosure as discussed herein before offering to sell or publicly disclosing the invention, (2) at the end of the provisional’s one year, file Patent Cooperation Treaty (PCT) applications on the few inventions that warrant the cost, (3) if the application fairs well in the PCT’s preliminary examination and is commercially successful, (4) only then invest in patent prosecution in chosen countries.

<sup>155</sup> Polaroid Corp. v. Eastman Kodak Co., 641 F. Supp. 828, 789 F.2d 1336 (Fed. Cir. 1986), *cert denied*, 479 U.S. 850 (1986) leading to Polaroid Corp. v. Eastman Kodak Co., 1990 U.S. Dist. Lexis 7968, 16 U.S.P.Q.2d 1481 (D. Mass. 1990) (\$900 million in patent infringement damages, permanent injunction against Kodak selling instant cameras and order that Kodak recall infringing cameras and film from supply chain and retail stores); NTP, Inc. v. Research in Motion, Ltd., 392 F.3d 1336 (Fed. Cir. 2004) (Blackberry maker RIM paid \$612 million for a license to NTP’s patents).

<sup>156</sup> Source: “Intellectual Property Leasing and Its Implications for the Leasing Industry” (2002), Equipment Leasing and Finance Foundation; 2001 Annual Reports for Plant and Equipment, McDermott, Will & Emery for patent value.

<sup>157</sup> If a patent assignee does not timely and properly record the assignment with the PTO and the patent seller again (unlawfully) sells the patent to an innocent purchaser, then the innocent purchaser has superior rights. 35 U.S.C. §261.

<sup>158</sup> Tex. Bus. & Com. Code §2.312(c). Cover v. Hydromantic Packing Co., Inc., 36 U.S.P.Q.3d 1199 (Fed. Cir. 1996) (If Buyer’s product specifications cause Seller to infringe a patent, then Buyer must indemnify Seller.)

<sup>159</sup> One invention development company’s Texas cover page stated that “The total number of customers who have contracted with the invention developer since 1987 is 4353. The total number of customers known by this invention developer to have received, by virtue of this invention developer’s performance an amount of money in excess of the amount paid by the customer to this invention developer is zero.” American Inventor’s Protection Act 35 USC §273, Regulation of Invention Development Services Act. Tex. Civ. Stat. Ann. art 9020.

<sup>160</sup> On October 26, 1995, federal and local law enforcement agencies raided American Investors Corporation and American Institute for Research and Development pursuant to a sealed indictment charging that they had operated “a deceptive invention promotion scheme that bilked consumers nationwide out of thousands of dollars each over a 20 year span,” according to Jodie Burnstein, Director of the Federal Trade Commission’s Bureau of Consumer Protection “What we repeatedly find are consumers paying thousands of dollars to firms promising to help bring inventions to market, and getting nothing in return. Unfortunately, independent inventors with enthusiasm for their ideas are vulnerable to someone who appears willing to help market their dream. The reality is that independent inventors trying to market an invention face staggering odds.” According to FTC Senate testimony, “Tens of thousands of independent inventors have lost tens of millions of dollars to ineffective or dishonest companies and individuals offering invention promotion services.” “Patent Nonsense, Naïve Inventors Fall For Optimistic Pitches Some Marketers Make, Firms Often Praise The Idea, Get Paid, Do Little to Get It Manufactured.” The Wall Street Journal, Vol. LXXXVIII, No. 51, (September 11, 1991), (discussion of FTC crackdown on invention marketing companies including several which had been put out of business only to reopen under another name).

<sup>161</sup> Illinois Tool works, Inc. v. Independent Ink, Inc., 126 S.Ct 12810 (2006) (Patent ownership does not presume market power, overturning prior precedent).

<sup>162</sup> Trade secrets, confidential information, know-how and proprietary information, are all referred to in this paper as trade secrets. Although Texas does not have a civil statute defining trade secrets, the Texas Supreme Court has adopted Restatement of Torts, §757(b) (1939). Luscious v. J.C. McKinley Co., 376 S.W.2d 336 (Tex. 1964). (“A trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives one an opportunity to obtain an advantage over competitors who do not know it or use it. The subject matter of a trade secret must be a secret . . . so that, except by the use of improper means, there would be difficulty in acquiring the information . . . . Some factors to be considered in determining whether given information is one’s trade secret are: (1) The extent to which the information is known outside of his business; (2) The extent to which it is known by employees and others involved in his business; (3) The extent of measures taken by him to guard the secrecy of the information; (4) The value of the information to him and to his competitors; (5) The amount of effort or money expended by him in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.”). Even “negative know-how,” *i.e.*, “I’m not going to do that again” knowledge learned from failure can be a trade secret. Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1995 (5<sup>th</sup> Cir. 1986) (“knowing what not to do often leads automatically to knowing what to do.”). A lesser, merely “novel to the buyer,” standard may apply to contract based claims. Nadel v. Play-By-Play Toys and Novelties, Inc., 208 F.3d 368 (2<sup>nd</sup> Cir. 1999). Sikes v. McGraw-Edison Co., 665 F.2d 731 (5<sup>th</sup> Cir.) *cert. denied*, 458 U.S. 1108 (1982), *contra*, Hudson Hotels Corp. v. Choice Hotels Int’l, Inc., 995 F.2d 1173 (2<sup>nd</sup> Cir. 1993). Confidential information is secret information about specific events or clients, customer lists, leads, transactions, etc. Zoecon Indus. v. American Stockman Tag. Co., 713 F.2d 1174, 1179 (5<sup>th</sup> Cir. 1983) (discussion of Texas law on client/customer lists, etc.).

<sup>163</sup> The applicable statute of limitations is “three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.” Tex. Civ. Proc. & Rem. Code Ann. §16-010. The misappropriation occurs when the wrongful act causes legal injury. The second part of this statutory statement cannot be ignored as it is the trade secret owner’s burden to prove he could not have discovered the misappropriation by the exercise of due diligence. Seatrax Inc. v. Sonbeck Int., Inc., 200 F.3d 358 (5<sup>th</sup> Cir. 2000). An attorney should be retained as early in the investigation as possible so attorney/client privilege protections can attach.

<sup>164</sup> **(a) Trade secret status is often disputed.** Ruckelshaus v. Monsanto Co., 467 U.S. 986 (1984) “Because of the intangible nature of a trade secret, the extent of the property right therein is defined by the extent to which the owner of the secret protects his interest. Information that is public knowledge or that is generally known in an industry cannot be a trade secret. [Citation] If an individual discloses his trade secret to others who are under no obligation to protect the confidentiality of the information, or otherwise publicly discloses the secret, his property right is extinguished.”; In Re Bass, 113 S.W.3d 735, 739 (Tex. 2003) (To determine whether a trade secret exists, Texas courts apply the Restatement of Torts’ six-factor test: “(1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the

extent of the measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.”); **(b) General knowledge.** Reading & Bates Constr. Co. v. O’Donald, 627 S.W.2d 239, 243 (Tex. Civ. App.—Corpus Christi 1983, writ *ref’d n.r.e.*) (matters of gener 10586727 al knowledge cannot be transformed into trade secrets by collecting them in a certain fashion). Trilogy Software, Inc. v. Callidus Software, Inc., 143 S.W.3d 452, 466-67 (Tex. App.-Austin 2004, pet. denied) (trade secret status does not “automatically attach[] to any information that a company acquires regarding its customers” because “if it did, it would amount to a de facto common law non-compete prohibition”); Anderson Chem. Co. v. Green, 66 S.W.3d 434, 442 (Tex. App.-Amarillo 2001, no pet.) (former employee may use general knowledge, skill, and experience acquired during the prior employment relationship). **(c) Patent.** Matters disclosed in a patent or a published patent application are no longer secret. But a trade secret that subsequently becomes public is sometimes still capable of supporting an agreement. K&G Oil Tool v. G&L Fishing Tool Service, 314 S.W. 782, *cert denied*, 338 U.S. 898 (1938); Aronson v. Quick Point Pencil, 99 S.Ct. 1096 (1979). **(d) Copyright.** Whether matter protected by a copyright registration has lost its trade secret status is uncertain. Compare, Grace v. Orkin Exterminating Co., Inc., 255 S.W.2d 279 (Tex. App.—Beaumont) (1953) and Taco Cabana International, Inc. v. Two Pesos, Inc., 932 F.2d 1113 (5<sup>th</sup> Cir. 1991), 505 U.S. 763 (1992), with, Tedder Boat Ramp Systems, Inc. v. Hillsborough, 54 F. S 1300 (M.D. FL 1999). Creole Production Serv., Inc. v. Harper et al., 640 S.W.2d 727, 730 (Tex. Civ. App.—Houston [14<sup>th</sup> Dist.] 1982, writ *ref’d n.r.e.*).

<sup>165</sup> The confidential relationship can either be implied, such as an officer’s duty to a company, or express, such as due to a nondisclosure agreement.

<sup>166</sup> Alcatel USA, Inc. v. DGI Technologies, Inc., 166 F.3d 772 (5<sup>th</sup> Cir. 1999) (“Improper means” are means which fall below generally accepted standards of commercial morality and reasonable conduct” (quoting E.I. DuPont, infra)). For example, DuPont took special precautions to protect its secret manufacturing facility. A competitor who took revealing photographs of the plant from an airplane was held to have misappropriated DuPont’s trade secrets by improper means. “‘Improper’ will always be a word of many nuances, determined by time, place, and circumstances. We, therefore, need not proclaim a catalog of commercial improprieties. Clearly, however, one of its commandments does say “thou shalt not appropriate a trade secret through devious means under circumstances in which countervailing defenses are not reasonably available.”” E.I. DuPont De Nemours & Co., Inc. v. Christopher, 431 F.2d 1012 (5<sup>th</sup> Cir. 1970), *cert. denied*, 91 S.Ct. 581 (1971); If the information resided in a computer, the unauthorized taking may breach federal law. Computer Fraud and Abuse Act, 18 U.S.C. § 1030 *et. seq.* Reverse engineering and independent creation are lawful. CMI Corp. v. Jakob, 209 U.S.P.Q. 233 (W.D. Okla. 1980).

<sup>167</sup> The Inevitable Disclosure doctrine is not expressly adopted in Texas. Cardinal Health Staffing Network, Inc. v. Bowen, 106 S.W.3d 230, 242 (Tex. App.—Houston [1<sup>st</sup> Dist.] 2003, no pet.), but some Texas courts use similar tests. *See, e.g.*, Weed Eater, Inc. v. Dowling, 562 S.W.2d 898 (Tex. App.—Houston [1<sup>st</sup> Dist.] 1978, writ *ref’d n.r.e.*); Williams v. Compressor Engineering Corp., 704 S.W.2d 469, 471-72 (Tex. App.—Houston [14<sup>th</sup> Dist.] 1986, writ *ref’d n.r.e.*); FMC Corp. v. Varco International, Inc., 677 F.2d 500 (5<sup>th</sup> Cir. 1982); Union Carbide Corp. v. DSC Communications Corp., No. 05-98-01051-CV, 1999 WL 8995, at \*4 (Tex. App.—Dallas 1999, no pet.) (not designated for publication) (emphasis in original) (“enjoining an employee from using an employer’s confidential information is appropriate when it is *probable* that the former employee will use the confidential information for his benefit (or his new employer’s benefit) or to the detriment of his former employer”).

<sup>168</sup> Lamons Metal Gasket Co. v. Traylor, 361 S.W.2d 211, 213 (Tex. Civ. App.—Houston 1962, writ *ref’d n.r.e.*) (plaintiff must establish that defendant knew that use or disclosure was a breach of duty to the plaintiff). Even if a person learned the trade secret by accident, his use or disclosure of it could be improper if he had reason to know its trade secret status. For example, if he picked up a sheet of paper on the sidewalk with Coca-Cola’s secret formula, and it was stamped “Confidential.”

<sup>169</sup> E.I. DuPont De Nemours & Co., Inc. v. Christopher, 431 F.2d 1012 (5<sup>th</sup> Cir. 1970), *cert. denied*, 91 S.Ct. 581 (1971); Hudson Hotels Corp. v. Choice Hotels Int’l, Inc., 995 F.2d 1173 (2<sup>nd</sup> Cir. 1993).

<sup>170</sup> Stamp sensitive documents, “This is an unlawful copy of a confidential document if this legend does not appear in red. Please contact \_\_\_\_\_ at 888-999-1234” in red ink. Passwords should be changed periodically. The opening screen of a computer program can advise that its contents are confidential and condition granting a new password to the user clicking that he has read and agrees to a standard confidentiality agreement.

<sup>171</sup> Trade secret enforcement cases are often lost due to lack of a security program. Auto Wax Co. v. Byrd, 599 S.W.2d 110 (Tex. Civ. App.—Dallas 1980, no writ) (Keeping formulas in unlocked filing cabinets accessible to anyone defeated trade secret status.).

<sup>172</sup> Wal-Mart Stores, Inc. v. Sturges, 52 SW 3d 711 (Tex. 2001). But, competition for employees is lawful and third parties have the right to persuade a party to an at-will contract to exercise the right to terminate the contract if a legitimate purpose of the third party is being served. Times Herald Printing Co. v. A.H. Belo Corp., 820 S.W.2d 206, 215 (Tex. App.-Houston [14<sup>th</sup> Dist.] 1991, no writ).

<sup>173</sup> Powell Electric Mfg. Co., Inc. v. Williams, 513 S.W.2d 156, 158 (Houston [14<sup>th</sup> Dist] 1974, no writ).

<sup>174</sup> **(a) Technical Requirements.** Tex. Bus. & Com. Code §15.50(1); The employee's covenant not to compete need only be ancillary to an otherwise enforceable agreement. Marsh USA, Inc. v Cook, \_\_\_ S.W. 3d \_\_\_ (Tex. 2011) overruling Debbie Light v. Centel Cellular Co. of Texas, 883 S.W.2d 642 (Tex. 1994). An employer's unenforceable promise to some day provide the employee specialized training, confidential information, etc. is a sufficient ancillary as long as the employer provides it prior to the employee's breach of the employee's non-competition covenant. Alex Sheshunoff Management Services LP v. Johnson, 124 S.W.3d \_\_\_ (Tex. 2006).

**(b) Reasonable Limitations.** The covenant must have reasonable time (1 to 3 years), geographic area and scope limitations and not impose a greater restraint than necessary to protect the interest of the promisee. Peat Marwick Main & Co. v. Haass, 818 S.W.2d 381 (Tex. 1991); Justin Belt Co. v. Yost, 502 S.W.2d 681 (Tex. 1973). Arthur Murray Dance Studios Cleveland, Inc., v. Witter, 105 N.E.2d 685, 92 U.S.P.Q. 447 (Ohio 1952) (41 questions to decide reasonableness). A covenant that is too broad is unenforceable until reformed and if asserted presents a target for the employee to sue. Failure to plead for reformation of an overly broad covenant voids it. **(c) Poison Pill.** Tying the employee's non-compete and the employer's compensation promises creates a poison pill. Olander v. Compass Bank, 363 F.3d 560 (5<sup>th</sup> Cir. 2004) (Employee's stock option tied to non-compete. Upon employee invalidating non-compete, employee had to repay employer the employee's stock option profits); John R. Ray & Sons, Inc. v. Stroman, 923 S.W.2d 80 (Tex. App.-Houston [14<sup>th</sup> Dist.], 1996). (requirement that former employee pay former employer a percentage of former customer revenues he is now receiving may be enforceable, which may dissuade a competitor from hiring him.) Peat Marwick Main & Co. v. Haass, *supra*. (Although the requirement that the former partner accountant pay the firm a large percentage of the client revenues he took was unenforceable, the Court, in *dicta*, said a smaller percentage may be enforceable.) **(d) Applicable Law.** Which state's law governs is sometimes outcome determinative. DeSantis v. Wackenhut Corp., 793 S.W.2d 670 (Tex. 1990), *cert. denied*, 111 S.Ct. 755 (1991).

<sup>175</sup> Abetter Trucking Co., Inc. v. Arizpe, 113 S.W. 3d 5003 (Houston [1<sup>st</sup> Dist.] 2003) (List of possible claims against a former employee turned competitor, i.e., breach of fiduciary duty, usurpation of corporate opportunity, conversion, tortious interference, etc. The employer lost.)

<sup>176</sup> Unlike a covenant not-to-compete, a nondisclosure covenant can be of infinite duration and geographic scope. Zep Mfg. Co. v. Hartcock, 824 S.W.2d 654 (Tex.App.-Dallas, 1992). Guy Carpenter & Co., Inc. v. Provenzale, 334 F.3d 459 (5<sup>th</sup> Cir. 2003).

<sup>177</sup> Lone Star Steel Co. v. Wahl, 636 S.W.2d 217 (Tex. App.-Texarkana 1982, no writ) (An example of waiting too long to have the employee sign the agreement, making the signed agreement unenforceable.)

<sup>178</sup> In re McKinney, 167 S.W.3d 833 (Tex. 2005). In most business vs. consumer or employee disputes, the business had rather the fact finder be a judge (jury waiver) or an arbitrator (arbitration agreement) than a jury comprised of the consumer or employee's peers. The usefulness of arbitration is the subject of valid and heated dispute. A rational arbitrator or result is not guaranteed. However, neither is a rational jury. Arbitration can be as expensive and as frustrating as litigation. If attention is paid to drafting the arbitration agreement before the dispute arises, however, it can qualify the arbitrators (i.e., to be from a group you are comfortable with), be appealable to the courts on the arbitration record (to insure against run-away arbitrators), fix the site of the hearing (your home city), maintain all information about the dispute in confidence (in contrast to typical court proceedings), etc. Because the exact terms of an arbitration provision can be very important, your attorney should draft them.

<sup>179</sup> Although recording a conversation that you are a party to is lawful in Texas, it is unlawful in some states. Which state's law applies to a call between states is fact dependent, complicated and uncertain. [www.rcfp.org/taping](http://www.rcfp.org/taping)/Employees have a right of privacy unless put on notice of company's monitoring right. Nited States v. Slanina, 283 F.3d 670 (5<sup>th</sup> Cir. 2002). Non-consensual third party interception is illegal. Tex. Code. Crim. Proc. Ann. Art. 18.20.

<sup>180</sup> For repetitive type matters, a standard "see reverse side for additional terms" or shrink-wrap license agreement (package or opening screen that says "opening this package comprises your acceptance of the agreement") is often enforceable if the agreement is provably seen by the purchaser. Pro CD, Inc. v. Zeidenberg, 86 F.3d 1447 (7<sup>th</sup> Cir. 1996).

<sup>181</sup> The simple step of separating a business' operations into one entity and its assets (Including trademarks, copyrights, patents, etc.) into another entity is a common asset protection strategy. If an employee of the operating entity causes injury or if the business' creditors will not get paid, this structure often protects the business' assets by

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limiting liability to the operating entity. (Separating the assets now is critical). Attempting to do this after the insolvency causing event may be a fraudulent transfer. Flores v. Robinson Roofing & Construction Co., 161 S.W.3d 750 (Tex.Civ. -Ft. Worth 2005) Asset protection trusts are subject to a 10-year look back period. Delay may create insurmountable tax transfer costs.)

<sup>182</sup> If you or a holding company own essential IP and license it to the operating company, your accountant has a greater range of options for minimizing taxes. Perhaps you can avoid double taxation by taking money out of the business via royalties, a personal separate sale of the IP, etc. Perhaps you can organize the IP holding company in a state or country where little or no taxes are imposed (e.g. Delaware, Nevada, Bahamas, and Cayman Islands).

<sup>183</sup> Most business persons fail to focus on the fact that they cannot afford to defend themselves in an expensive lawsuit. Whether you were right or wrong, or win or lose, is irrelevant if the cost of the lawsuit cripples your business. Even if insurance policy does not insure your liability to pay damages if you lose the suit, your defense (which could be many tens of thousands of dollars of attorney's fees) may be insured. This distinction arises in the real world more often than is appreciated. It should be considered ahead of time and your insurance company pressed to provide a defense even if it has not insured your damages.

<sup>184</sup> Intex Plastics Sales Co. v. United Nat'l Ins. Co., 18 U.S.P.Q.2d 1567 (C.D. Ca. 1990), 23 F.3d 254 (9<sup>th</sup> Cir.) Bradford Lyeria and Manuel Abascal, Insurance Coverage For Intellectual Property Claims: The California v. The New York Approach, 19 AIPLA Q.J. 189 (1991).

<sup>185</sup> Few people have practice selling their business, yet no sales transaction is more important or more certain to occur (if you do not sell your business, your executor will). There are many opportunities and traps. For example, when a business is sold, a portion of the seller's or the buyer's taxes can be cut in half or doubled depending on how the purchase price is allocated among the assets sold (Buyer: capital gain vs. ordinary income, is opposed to Seller: ordinary expense or depreciable asset vs. non-depreciable asset). These issues should be discussed with your accountant and attorney decades in advance of the liability event or sale. In a marital context, whether IP is community or separate property generally depends on when it was created. Income from a separate property intellectual property received during marriage is community property. Alsenz v. Alsenz, No. 01-01-00369-CV (Tex. Civ. App.—Houston [1<sup>st</sup> Dist.] February 27, 2003). *But see*, Rodriguez v. Rodriguez, 218 F.3d 432 (E.D. La. 2000) (copyright right is separate rather than community property). This varies state-by-state.

<sup>186</sup> To obtain the most benefit from Bankruptcy Code 11 USC §365, an IP license from a financially weak licensor should be separated between a first license for the IP and immediately deliverable goods and services that is either paid up or subject to small continuing payments, and a second separate agreement for all future goods and services you expect to receive and your payments for them. Otherwise, if the licensor goes bankrupt, you will have to continue to pay the total price of everything to keep using the IP you are already using and paid for, even though you will not get any of the promised future goods and services.

<sup>187</sup> Flavius Vegetius Renuat, De Rei Militari, III, Prologue, (375) (“Qui desiderat pacem, praeparet bellum” - “Let him who desires peace, prepare for war.”).

## INTELLECTUAL PROPERTIES

	<b>PATENT</b>	<b>TRADEMARK</b>	<b>COPYRIGHT</b>	<b>TRADE SECRET</b>
<b>PROPERTY PROTECTED</b>	Useful or design features of objects, processes, business methods or “anything under the sun made by man.”	Words, symbols or non-functional features	Anything creative and not primarily physically functional.	Any secret that gives you a business advantage over those who do not know it.
<b>REGISTRATION</b>	USPTO within one year of first offer or publicly known.	USPTO; Texas Secretary of State.	U.S. Copyright Office	None
<b>REQUIREMENTS FOR PROTECTION</b>	<ol style="list-style-type: none"> <li>1. Novel and non-obvious.</li> <li>2. <u>Utility</u>: useful, <u>Design</u>: ornamental</li> <li>3. Application disclosing “best mode” within one year of offering invention for sale or public disclosure.</li> <li>4. Issued patent in subject country.</li> </ol>	<ol style="list-style-type: none"> <li>1. Mark identifies your goods or services and distinguishes them from others’ or file an “intent-to-use” federal application.</li> <li>2. Registration is not necessary, but helpful.</li> </ol>	<ol style="list-style-type: none"> <li>1. Originality (creativity).</li> <li>2. Copyright notice (not necessary, but helpful).</li> <li>3. Registration (not necessary, but very helpful).</li> </ol>	<ol style="list-style-type: none"> <li>1. It gives you a business advantage.</li> <li>2. Reasonable steps to keep it secret.</li> <li>3. Those who know the secret know it is your secret.</li> </ol>
<b>DURATION OF PROTECTION</b>	Utility: 20 years from priority date. Design: 14 years from grant (both subject to maintenance fees)	Common Law: No limit if you keep using it.  Registration: 10 years, renewable indefinitely if you keep using it and comply with formalities.	Work for hire - earlier of 95 years from publication or 120 years from creation.  Individual author - life plus 70 years.	As long as it is secret.
<b>PUBLIC NOTICE</b>	“Pat. Reg. No. ____” or “Pat. No. ____”	™ if not federally registered; “®” if federally registered.	“Copyright” or “©”, year first published, claimant. Example: © 1987-2008 Mark Miller	Any notice of its secret nature. “Confidential Property of _____.”
<b>INFRINGEMENT</b>	<u>Utility</u> : Every claim limitation is found, literally or equivalently, in accused device or method. <u>Design</u> : Accused design is substantially similar to patented design’s overall appearance taking prior art into account.  S/L: 6 years	Priority, mark is protectable and the relevant public will likely be confused between Plaintiff’s and Defendant’s marks.  S/L: Federal 2 years, states vary	Plaintiff’s work is protectable, Defendant copied Plaintiff’s work and Defendant’s work is substantially similar to protectable part of Plaintiff’s work.  S/L: 3 years	Information relatively secret and protected and Defendant knowingly misappropriated it to Defendant’s benefit or Plaintiff’s harm.  S/L: Texas 3 years
<b>FOREIGN</b>	U.S. patent limited to U.S. Foreign countries require “absolute novelty,” PCT gives one year priority period.	Need to register in each country. Most countries award rights to “first to file”	Country specific, but generally automatic	Generally, but not always, available in foreign countries

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