THE AUTHOR

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MALPRACTICE TRAPS FOR IP ATTORNEYS

I. INTRODUCTION

A. IP Malpractice

This paper’s purpose is to provide a short list of the ways in which new intellectual property law practitioners and general attorneys who dabble in intellectual property law most typically screw up. For obvious reasons, the list is not exhaustive and the individual topics are not treated thoroughly. Nevertheless, the length of the list is, except for the attorney with the most unmitigated hubris, frightening. The author is an admitted imperfect creature whose qualifications for writing this paper include a healthy dose of lessons learned by near misses. Even the attorney who has never missed a deadline and never made a prediction that failed to pan out likely practices law with others who do not walk on water like he or she does.

Back when patents, trademarks and copyrights were the exclusive province of wizards known as “patent attorneys,” it was not necessary for the general practitioner to know much about intellectual property law. For his part, the IP attorney author of this article cheerfully acknowledges having no idea what The Rule in Shelley’s Case is or was, what Miranda is, or where to find a black acre. The paths of general attorneys and IP attorneys rarely crossed except via referrals. In our enlightened age, however, intellectual property law is hot (succeeding to the place held, sequentially, by oil and gas, bankruptcy, and environmental law) and hundreds of Texas general practitioners do some intellectual property law. The author, in common with most IP attorneys, has seen situations where moral, honest, otherwise competent general practitioners have unknowingly committed, by act or omission, an intellectual property law “gotcha.” Thus, while some of the listed popular mistakes are unnecessary for the IP attorney, they are included because they may be eye-openers for some general practitioners.

This paper builds upon excellent prior Texas State Bar Intellectual Property Law Institute papers on this subject. Although the focus of this paper is different from those papers, it trods upon much of the same ground. “Ethical Pitfalls In Intellectual Property Practice,” David Hricik, Intellectual Property Law Seminar (1995) provides a thorough discussion of ethics and malpractice issues in the context of litigation and Patent Office proceedings. His succeeding paper, “How To Become A Defendant In An IP Malpractice Suit (Or Not?),” David Hricik, Intellectual Property Law Institute (1996), provides a more in-depth review of arbitration, agreements with clients, and other general ethical and malpractice concerns as applied to an intellectual property law practice. For a fuller appreciation of these issues, the practitioner is advised to carefully review those papers.

B. Garden Variety Malpractice

Non-IP specific malpractice issues are dealt with in Miller, Land Mine Poker for IP Attorneys (2003) presented separately.

C. “Determining What Kind of Legal Problems a Situation May Involve”

From our first law school exam forward, issue recognition is a lawyer’s basic survival skill. The Comment to Rule 1.01 of the Texas Disciplinary Rules of Professional Conduct states: “Perhaps the most fundamental skill [of a lawyer] consists of determining what kind of legal problems a situation may involve, a skill that necessarily transcends any particular specialized knowledge.”

Where should security interests in different intellectual property assets be recorded? Does a transfer of “all books, sheet music and art work” transfer the copyright rights associated with those items? Is a lawsuit against your client for copyright or trademark infringement covered by general liability insurance? General attorneys may not know that these are questions that need to be answered.

The IP attorney author of this article cheerfully acknowledges having no idea what The Rule in Shelley’s Case is or was, what a Miranda is, or where to find a black acre. IP attorneys typically do not know whether a lease to real property as opposed to a deed to real property needs to be recorded, what late payment penalties comprise usury or whether asking a subordinate out on a date creates a hostile work environment.

Nevertheless, sometimes we all become associated with matters that are outside of our area of specialization. We know that if we get in over our head and tell a client to do A when the client should have done B and our wrong advice causes injury, that is a problem. What if (1) issues arise during our representation of a client that are outside our area of competence, (2) we do not recognize that the issue exists, (3) we do nothing with respect to the issue and (4) our inaction causes the client injury?

On these facts, in the absence of a narrow scope of engagement clause in our engagement letter, a client may or may not get to a sympathetic jury on the proposition that (1) he or she trusted the attorney to advise concerning “what kind of legal problems” pertained to the transaction or suit in question; (2) the IP issue was relevant; (3) the attorney missed it or bungled it; and (4) the client was injured.

In Darby & Darby, P.C. v. VSI International, Inc., 178 Misc. 2d 113, 678 N.Y.S.2d 482 (S. Ct., New York County, New York 1998), the excellent law firm of Darby & Darby sued its client, VSI, for unpaid legal fees relating to defense of VSI in a trademark suit. VSI filed a malpractice counterclaim upon learning that its defense cost in the underlying suit would have been covered by its general insurance policy had a claim been timely made. Darby & Darby did not know VSI had insurance and had not asked VSI if it had insurance.
On these facts, the trial court held:

“The Plaintiff [Darby & Darby] has failed to cite a single case supporting its contention that, as a matter of law, it did not owe the Defendants a duty to inquire about their insurance coverage.” Id. at 482. [emphasis added]

“This Court is persuaded that Plaintiff’s failure to investigate the Defendants’ insurance coverage or alert them to the potential availability of insurance to cover their litigation expenses may have constituted legal malpractice.” Id. at 486.

The trial court thus held that Darby & Darby’s duty of competent representation of VSI in the underlying suit as VSI’s trial counsel may have encompassed inquiring of VSI whether it had insurance coverage in spite of VSI never asking Darby & Darby about insurance coverage and Darby & Darby, an IP firm, not having any insurance law expertise. This question was to go to the jury. On appeal, the appellate court held:

“Defendants [VSI] can point to no case in which a claim of attorney malpractice has been sustained based upon an alleged failure to advise a client to make a claim under an insurance policy, when the attorney was neither provided with the policy nor asked for advice as to the scope of its coverage. Darby & Darby, P.C. v. VSI International, Inc., 268 A.D.2d 270, 272, 701 N.Y.S.2d 50, 51 (S. Ct. Appellate Div. 1st Dept. New York 2000). [emphasis added]

This narrow victory should not provide much comfort to attorneys. The trial court and the appellate court each relying on the same absence of prior case law to reach contrary results brings to mind Justice Jackson’s remark that “We are not unaware that we are not final because we are infallible, we know that we are infallible only because we are final.”

This scary topic highlights three IP problems for general attorneys. First, a future unhappy client may assert a breach of the general attorney’s “competent representation” duty concerning an IP issue that, from the attorney’s narrow perspective is legally irrelevant to the assigned task, but is, from the client’s broad perspective, important to the ultimate result sought. This is similar to the malpractice actions brought by clients when the transaction attorney succeeds in getting the deal done on good terms, but fails to minimize the deal’s tax consequences. Second, the general attorney may be bitten when his or her casual “I wouldn’t worry about that” remark about an IP issue that seems unimportant ends up being untrue. Third, the general attorney may get bitten by taking an IP project and bungling it due to not knowing some applicable exception to the general rule.

Practice Point: Even a laser focus on your issues may not save you from IP malpractice attack unless you provably limit the scope of your engagement. Our initial and subsequent letters of engagement should preferably limit in and limit out what we are responsible for and are not responsible for.

D. PTO vs. Texas Rules

The fact that patent attorneys are uniquely subject to both the American Bar Association’s and the Texas Bar Association’s Disciplinary Rules and the consequences of this is discussed in “How to Become a Defendant in an IP Malpractice Suit (Or Not?), supra. The reader is referred to that paper for this topic.

E. What a Mess!

Fortunately/unfortunately, our clients do not care about IP in the abstract – they want to succeed. Often a relatively small intangible asset change creates huge value by getting the client significant marketing advantages and solving business problems.

You can do better than other attorneys by taking a holistic partnering approach; combining your broad experience across hundreds of businesses, your skill set that is not present in the client’s specific business and your knowledge of the client’s specific business to suggest specific attacks and broad movements toward the client’s long term goals and only then beginning your work as a legal craftsman.

This is both spooky and scary stuff for many attorneys and it leads us to malpractice trap laden. But, like it or not, as IP becomes an essential strategic asset rather than a weird icing-on-the-cake afterthought, it is what our clients expect from us. If your clients do not get generalist type guidance from you concerning how to best leverage their IP assets (often derisively referred to by attorneys as “business advice”) in addition to mere legal craftsmanship in your narrowly defined tasks, they may not remain “your” clients.

The reasonable response to this new environment is to appreciate the added risks and do what one can to limit those risks.

F. The Shape of The Target on Your Back

The good news is that only about one to two percent (1-2%) of legal malpractice claims are in the patent, trademark and copyright area. However, about seven percent (7%) of losses incurred came from such matters … so IP malpractice claims are likely to be about three times as expensive as other claims.

In the category of claims made due to alleged malpractice involved in litigation for less than $10 million, the claims break down relatively evenly between patents, trademarks and trade secrets. For claims made in litigation for over $10 million, the vast preponderance of the claims are for patent infringement litigation.
The most common types of IP errors alleged are reported by different surveys as follows: (a) conflict of interest (18%), planning or strategy area (18%), failure to know/properly apply the law (17%), inadequate discovery of facts or investigation (14%), failure to obtain client’s consent or to inform client (13%), other (17%) Lewis Harrison & Associates Study of 224 Large Firm Claims with Payments in Excess of $50,000. (b) Failure to know/properly apply the law (22%), failure to know/ascertain deadline (15%), failure to obtain consent/inform client (12%), failure to properly calendar (7%), inadequate discovery/investigation (6%), conflict of interest (5%) American Bar Association Lawyer’s Professional Liability Studies. (c) Missed application deadline (17.2%), incomplete/information in application (14.9%), missed annuities/maintenance payment (12.6%), failure to locate prior art (10.9%), fraud (7.5%), failure to interpret conflict of interest (5.2%), failure to follow client’s instructions (4.6%), trial tactical error (4.6%), failure to designate or file application in proper country (3.9%), libel/slander (2.6%), appeal activities (2.6%). Attorney’s Liability Assurance Society (PCT claims in IP firms). These above numbers are drawn from Anthony K. Green “Conflict of Interest” Risk Management Issues for Intellectual Property Lawyers at the HIPLA 18th Annual Institute on Intellectual Property Law (2002).

II. DEADLINES

Deadlines are the bane of every patent attorney’s existence and our most likely malpractice problem. Statutory bars, office action response dates, reissue dates, CIP dates, PCT dates, annuities, foreign filing deadlines, etc., all need to be recognized and docketed and explained to the client. Money and time must be spent on docketing personnel, calendaring, and following up on docket reminders.

If looking out over the field strewn with countless patent attorneys who were smarter, more honest, more diligent and harder working than you and who yet succumbed to the evil “missed deadline monster” does not frighten you, then you are exceedingly stupid.

III. TRADEMARKS

A. Worthless Incorporations and Assumed Name Filings

Most attorneys incorporate a client from time to time. They go through the process of having a desired corporate name rejected by the Texas Secretary of State’s Office, Corporations Division, due to being confusingly similar with a pre-existing corporate name. This creates the impression that obtaining a corporate name protects against others using the corporate name in commerce or gives the corporation the right to use it in commerce. This is not the case. “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, Business and Commerce Code), Assumed Business or Professional Name Act (Chapter 36), Business and Commerce Code or the common law.” Tex.Corp.Act Ann. art. 2.05(c); Ergon, Inc. v. Dean, 649 S.W.2d 772 (Tex.Civ.App. - Austin, 1983) (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 corporate name.) Attachment A shows that this fact is even stated in each corporation’s Certificate of Incorporation.

Further, the Texas Secretary of State’s Office, Corporations Division, does not inquire of the Texas Secretary of State’s Office, Trademark Division, concerning whether another business may have a trademark registration for the same name. Thus, the Corporations Division may approve a corporate name that the Trademark Division has issued a trademark registration on to another. If your client’s line of business is similar to the prior trademark registrant’s line of business, then your client will likely lose the inevitable trademark lawsuit.

Obtaining an assumed name registration at the county clerk’s office or the Secretary of State’s Office, does not protect the company or individual against others using the name or give the entity the right to use the name in commerce. “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 name 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 rights.” Tex.Bus.Comm.Code § 36.17.

Trademark priority is acquired only by being the first to properly use the term as a trademark in commerce or by filing a federal intent-to-use trademark application that matures into a registration. (15 U.S.C. § 1051(b). Neither incorporation nor assumed name filings comprise “use” in commerce. “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 (5th 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., 200 U.S.P.Q. 421 (1978 3rd Cir.) Thus, more precisely, the first user to establish secondary meaning in the mark can obtain exclusive rights against junior users. 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 (11th Cir. 1991); cert. denied, 112 S.Ct 639 (1991); Inwood Lab., Inc. v. Ives Lab., Inc., 456 U.S. 844 (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. 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). An intent-to-use applicant must actually use the term in commerce before the application will issue as a registration.

B. Failure to Promptly File A Trademark Application

The first to file a federal trademark application which issues is the “senior registrant” and has a prima facie national exclusive right to use the mark in that line of business. However, the senior registrant may not be the first user in commerce. The senior registrant’s registration can be canceled by the senior user within five years of the registration issuing on the basis of the senior user’s prior use. Thereafter, the senior user’s grounds for cancellation are limited to grounds which do not include merely proving prior use. 15 U.S.C. § 1604. Therefore, the sooner the application is filed and the registration issues, the sooner the five years runs which cuts off most attacks by senior users.

Further, since filing an intent-to-use application is constructive use in commerce as long as the application ultimately issues, an intent-to-use registrant whose application date predates the senior user’s date of first use will obtain national exclusive rights which relate back to the day the intent-to-use application and before the applicant began actual use in commerce was filed. (U.S.C. § 1057(c)). An intent-to-use application’s issuance as a registration cannot be stopped by a party which began using after the application was filed merely by asserting its prior use. WarnerVision Entertainment, Inc. v. Empire of Carolina, Inc., 101 F.3d 259, 40 U.S.P.Q.2d 1855 (2nd Cir. 1996). Thus, a race to file before the unknown third party uses in commerce may exist with respect to any given intent-to-use application.

Trademark priority is the high ground in any trademark dispute. It is acquired only by being the first to properly use the term as a trademark in commerce or by filing a federal intent-to-use trademark application that matures into a registration. 15 U.S.C. § 1051(b). “Use” means actions which place the mark before the public, typically, a bona fide sale of the marked good 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 (5th Cir. 1975). If the term is not inherently protectable, the use must be sufficient to create secondary meaning. Inwood Lab., Inc. v. Ives Lab., Inc., 456 U.S. 844, 851 (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.”) Thus, more precisely, the first user to establish secondary meaning in the mark can obtain exclusive rights against junior users. Braun, Inc. v. Dynamics Corp. of America, 975 F.2d 815, 825 (Fed. Cir. 1992).

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). An intent-to-use applicant must actually use the term in commerce before the application will issue as a registration.

C. Informal Trademark Clearance Opinions

“Can I [client] use this as my new trademark?” If all that was at risk was the client’s $325 filing fee for a federal trademark application, we would typically not bother with a search. However, clients often make a substantial investment in the mark by using it to identify their goods or services, in marketing, advertising, etc. A trademark search lessens the chance of a pre-existing similar trademark in the same field of use subsequently surfacing. Some courts hold that a prospective trademark user has “a duty to ensure, through a proper and timely trademark search, that its campaign would not imitate an existing registered mark.” Sands, Taylor & Wood v. The Quaker Oats Co., 18 U.S.P.Q.2d 1457 (N.D. Ill. 1990), 44 F.3d 579 (7th Cir. 1995).

Deciding on the kind of search to be done is problematical (meaning there is no right answer). One can legitimately either spend several hundred dollars doing a full search, searching federal and state registrations, expired registrations, trade journals, national business directories, internet domain names, etc., or do a limited knock-out search of PTO registrations and applications and Texas Secretary of State’s Office, Trademark Division. The possible variations, flavors and costs between these alternatives is infinite. The more money spent on outside services to produce comprehensive results that the attorney can simply receiving and forward to the client the less chance that an unknown prior user will pop up in the future causing the client to be unhappy with the attorney. Since the client’s investment in the trademark is sometimes immense, the cost of full searching is sometimes justified. On the other hand, smaller clients or clients who wish to keep legal costs down may want only the knock-out search.

Federal and state antidilution statutes need to be taken into account in rendering trademark clearance opinions. 15 U.S.C. § 1125(c); Tex. Bus. & Comm. Code § 16.29. While the federal antidilution statute is limited to the protection of “famous marks,” Texas’ antidilution 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.”  *Id.*

Internet domain name searching and conflicts also present difficult clearance issues. Information concerning Network Solutions, Inc.’s domain name conflict resolution procedures is available at http://www.rs.internic.net. Generally, a prior user with any national trademark registration wins. A prior user without a national trademark registration may attack the subsequent domain name user under the federal trademark dilution statute. *Intermatic, Inc. v. Toeppen*, 947 F. Supp 1227 (N.D. Ill 1996).

**Practice Point:** To lessen the odds of unhappy clients you should probably inform a client who is selecting a new mark of these problems and give the client the choice of the kind of trademark clearance search the client wants to pay for. The fact that it is the client who has chosen the type of search decreases the chance of an unhappy client if someday a pre-existing prior trademark user pops up some years down the road.

**D. Unprotectable Trademarks**

Clients often come to the IP lawyer with new trademarks to register which are not protectable. Many business owners want a mark which either defines or merely describes the business they are in. The client should be advised up front that neither of these marks can be protected. A protectable mark distinguishes the user’s goods or services from the goods and services of others.

The courts categorize marks as: 1) generic, 2) descriptive, 3) suggestive, or 4) arbitrary or fanciful. 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) and receive no protection.

A descriptive term “identifies a characteristic or quality of an article or service—such as its color, odor, function, dimensions, or ingredients.” *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786-790 (5th Cir. 1983). Descriptive marks which have developed a secondary meaning differentiate the source of goods to the consumer are protectable and registrable. The court considers (1) the length and manner of the mark’s use; (2) the nature and extent of advertising and promotion; (3) efforts made by plaintiff to promote a conscious connection in the public’s mind between 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. *Cicena Ltd. v. Columbia Telecommunications Group*, 900 F.2d 1546 (Fed. Cir. 1990) (rejecting “secondary meaning in the making.”) However, a descriptive mark which is protectable because it has a secondary meaning carries with it an element of risk because a single adverse final judgment that it is “merely” descriptive destroys its protectability unless it has the protection of an incontestible federal trademark registration as discussed below. Arbitrary marks receive the most protection. While no one can guarantee how the trademark examiner, Trademark Trial and Appeal Board, jury, or judge will deal with a mark, some marks are more risky than others. These risks should be discussed with the client before the trademark application is filed.

**E. Unreliable Trademark Clearance Opinions**

A trademark search is undertaken to lessen the chance of a pre-existing similar trademark in the same field as the client’s intended mark subsequently surfacing. If all that was at risk was the client’s $245 filing fee for a federal trademark application, we would typically not bother with a search at all. The client, however, will likely make a substantial investment in the mark by using it to identify his or her goods or services in marketing, advertising, etc. Some courts hold that a new trademark user has “a duty to ensure, through a proper and timely trademark search, that its campaign would not imitate an existing registered mark.” *Sands, Taylor & Wood v. The Quaker Oats Co.*, 18 U.S.P.Q.2d 1456 (N.D. Ill. 1990), 44 F.3d 579, 33 U.S.P.Q.2d 1543 (7th Cir. 1995).

Deciding on the kind of search to be done is problematical (meaning there is no right answer). One can legitimately either spend several hundred dollars doing a full search, searching federal and state registrations, expired registrations, trade journals, national business directories, internet domain names, etc., or do a limited knock-out search of PTO registrations and applications and Texas Secretary of State’s Office, Trademark Division. The possible variations, flavors and costs between these alternatives is infinite. The more money spent on outside services to produce comprehensive results that the IP attorney can simply forward to the client the less chance that an unknown prior user will pop up in the future causing the client to be unhappy with the attorney. Since the client’s investment in the trademark is sometimes immense, the cost of full searching is sometimes justified. On the other hand, smaller clients or clients who wish to keep legal costs down may want only the knock-out search.

An additional problem is that federal and state anti-dilution statutes need to be taken into account in rendering trademark clearance opinions. 15 U.S.C. § 1125(c). The federal anti-dilution statute is limited to the protection of “famous marks” determined in accordance with eight factors. Willful dilution can result in damages. Texas has a unique anti-dilution law which 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 Ann. § 16.29. A mark that is on the federal Principal Register cannot cause dilution under any state law.

Internet domain name searching and conflicts are also a trademark clearance issue. Information concerning Network Solutions, Inc.’s domain name
conflict resolution procedures is available at http:\www.rs.internic.net and from the U.S. Patent and Trademark Office at http:\www.uspto.gov. Generally, any prior user with any national trademark registration wins. A prior user without a national trademark registration, may attack the subsequent domain name user (a “cybersquatter”) under the federal trademark dilution statute. Intermatic, Inc. v. Toeppen, 947 F.Supp 1227, 40 U.S.P.Q.2d 1412 (N.D. Ill 1996).

To lessen the odds of unhappy clients one should provably inform the client of these problems and give the client the choice of the kind of trademark clearance search the client wants to pay for. The fact that it is the client who has chosen the type of search the client wants to rely on decreases the chance of an unhappy client when a pre-existing prior trademark user that was not caught by your trademark search pops up some years down the road.

F. Informal Infringement/Non-Infringement Opinions

First, be aware you are giving an opinion. A casual “I wouldn’t worry about that” may be an opinion the client later sue you for when a judge and jury subsequently disagree with it. Second, attorney opinions concerning trademark infringement or non-infringement are subject to several tests for sufficiency which ultimately come down to what the circuit in question believes was needed for you to predict whether a future jury will answer “yes” or “no” concerning whether there is likelihood of confusion between the marks considering the totality of the circumstances. 100% guarantees are frowned on.

A finding of trademark infringement is based on more than just an abstract similarity between marks. Mark strength, proximity of the competing goods in the marketplace, quality of competing goods, sophistication of its consumers, good faith in mark adoption, and actual confusion are factors the ultimate fact finder will consider. “Fair use” is a defense to claims of infringement of a descriptive term, i.e., (1) the defendant is not using the term as a trademark, (2) the term is descriptive of the defendant’s goods or services, and (3) defendant’s use of the term is in good faith. Dow Brands L.P. v. Helene Curtis, Inc., 863 F. Supp. 963 (D. Minn. 1994); Zatarains, Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786 (5th Cir. 1983); Ergon, Inc. v. Dean, 649 S.W.2d 772 (Tex. Civ. App. — Austin 1983).

Dilution, use of a mark that reduces the distinctive quality or “good will” of another mark, needs to be considered. Tex. Bus. & Comm. Code § 16.29. Dilution has only recently become a statutory cause of action. Consequently, its case law is not yet fully developed. The federal and several states’ antidilution laws have different standards.

G. Improper Specimens

Filing a use-based trademark application prior to the applicant having good specimens of use of the term in commerce can be fatal. The application will be rejected without proper specimens. It can not be converted into an intent-to-use application. Because the rejection may occur six to 18 months out and because, as seen above, an early application filing date is sometimes important, this minor misjudgment, i.e., “is this specimen sufficient?”, can have large consequences. False statements made in prosecution of the application may cause cancellation or unenforceability. Conwood Corp. v. Loew’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). This same problem occurs with respect to the specimens of use submitted in support of the intent-to-use application’s Statement of Use and the Section 8 affidavit to maintain a registration.

H. “Insincere” Intent-To-Use Applications

The benefit of an early filing of an intent-to-use application is described above. An intent-to-use application, however, requires a bona fide intent to use the mark in commerce. An inability to convince the fact finder at an ultimate trial that a bona fide intent really existed invalidates the registration. A shotgun filing of numerous intent-to-use applications for a single good or service may evidence a lack of bona fide intent. This puts a practical limit on the number of intent-to-use applications that can be filed for a single good or service.

I. Failure to File Section 8 & 15 Affidavits and Domestic and Foreign Renewals

A Section 8 “continued use affidavit” must be submitted “within one year next proceeding the expiration of...six years” after the federal trademark registration issued to prevent it from being abandoned. Not all general practitioners have docketed this in the past.

A trademark registration becomes incontestable if a Section 15 affidavit is filed between the fifth and sixth years of registration. The Section 15 affidavit appears innocuous, stating only that the mark has been continually used in commerce, and that there are no decisions adverse to the registrant’s claim, nor are there any proceedings in the PTO or a court involving the same rights. Failure to timely file the Section 15 affidavit, however, forfeits the ability to obtain incontestability. This is important because incontestable registrations can only be canceled for fraud or statutory non-compliance. 15 U.S.C. § 1065; Park ‘N Fly v. Dollar Park & Fly, 105 S.Ct. 658 (1985).

A federal trademark may be infinitely renewed for ten year periods as long as the mark is used in commerce and proper renewal papers are filed between each succeeding nine to ten year periods together with proper specimens of use. Awareness of the obligation to renew and docketing are needed to “remember” to file renewal papers.

Foreign trademarks must also be maintained. This is complicated due to their many different use
requirements and time periods (calculated in lunar years in some countries).

J. Over-Reliance On A State Trademark Registration

While a Texas State trademark registration is often determinative in trademark disputes, any state trademark registrations, can be preempted by a federal trademark registration for the same or similar mark. That a pre-existing federal trademark registration preempts a subsequent Texas state trademark registration needs no explanation. It is not as obvious, but true, that a federal trademark registration subsequently obtained by a innocent junior user also preempts the state trademark registration. This collapses the senior Texas user’s/registrant’s trademark rights from the borders of the State of Texas down to its trade area at the time the federal registrant filed its federal trademark application. 15 U.S.C. § 1115(b)(5),(6), an (8); Burger King of Florida, Inc. v. Hoots, 403 F.2d 904, 159 U.S.P.Q. 706 (7th Cir. 1963); Davidoff Extension S.A. v. Davidoff Comercio E. Industria, 17 U.S.P.Q.2d 1514 (D.P.R. 1990) (senior user’s prior state registration preempted by junior user’s federal registration).

K. Non-Use of ®

A registrant should be advised that it does not obtain the full benefit of its trademark registration unless the registrant gives the public notice that the mark is registered with the “®” symbol or “Reg. U.S. Pat. & TM. Off.”, or “Registered in the U.S. Patent and Trademark Office”. Omission of the notice precludes recovery of the infringer’s profits and the registrant’s damages prior to the infringer being put on actual notice of the registration. 15 U.S.C. § 1111.

L. Failure to Timely Cancel

A person “who believes that he is or will be damaged by the registration of a mark” can petition to have the registration canceled. Initially, the petitioner can move to cancel on any grounds which would have precluded initial registration, including that the petitioner used the mark before the registrant. After five years, however, the cancellation petition can only be brought for abandonment, fraudulent registration, misrepresentative use of the mark, or registration had been obtained contrary to a statutory requirement. 15 U.S.C. §§ 2(a)-(c) or 4. If you represent the senior user against a junior registrant, the need to cancel within five years should be appreciated.

M. Loss of Distinctiveness

A trademark becomes unenforceable if it ceases to distinguish the trademark owner’s goods and services from those of his competitors. The trademark owner should be advised to use the mark as an adjective rather than as a verb or a noun (correct “BLUE’S Restaurant,” or “BLUE’S hamburger”; wrong: “Eat at Blues,” or “2 Blues for $1.00). Use of the ® and symbols or differentiate the term by printing it in a different color, script, size, etc., to help make it distinctive.

N. Naked Licensing and Assignment in Gross

An improperly drafted license agreement can forfeit your client’s trademark. A license of trademark rights in which the trademark owner does not retain the right to control the quality of the licensees’ goods or services or the trademark owner does not actually exercise control over the quality of licensee’s goods or services is a “naked license” which effects an abandonment of the trademark owner’s rights. J. Gilson, 1 Trademark Protection and Practice, § 3.06(1987), but see, Moore Business Forms, Inc. v. Ryu 960 F.2d 486, 22 U.S.P.Q.2d 1773 (5th Cir. 1992) (Consent-to-use distinguished from a naked license).

An improperly worded assignment can also abandon the client’s mark. If a mark is assigned without its good will, the assignment is an “assignment in gross” which effects an abandonment of the mark, meaning that nothing of value was transferred to the assignee. Assignments of marks must at least recite that the mark’s associated good will is transferred with it and, to be safer, should additionally convey some physical assets which embody the good will such as menus, signs, customer lists, etc., to the assignee. 15 U.S.C. § 1060.

O. Domain Names/ Internet

Domain names are the names separated by dots at the beginning of an internet web site address (URL). For example, in www.jw.com, the letters “jw” are the domain name. Problems arise when John Doe’s porn business obtains a domain name such as Nike.com. Direct trademark infringement law may not be applicable because John Doe is not in the same business as Nike. Nike, however, has an obligation to police its mark because common use of the mark may result in the mark’s loss of distinctiveness. Nike can assert dilution causes of action. Tex. Bus. & Comm. Code § 16.29. The danger of the Internet is not that infringing activities are new, but that the landscape and players can change so fast. A company like MarkSearch can be employed to keep an eye out for unauthorized uses of your client’s mark. Your clients can take inexpensive steps to protect their internet/web page investment by including a copyright notice hyper-link on all creative materials in their web page, obtaining a copyright registration on the web page and getting federal trademark registrations. A domain name may be a business’ most valuable asset.

Due to the wording of most domain register agreements domain names on their registries are considered mere addresses maintained via personal service agreements. Network Solutions, Inc. v. Ambro Int’l, Inc., 54 U.S.P.Q.2d 1738 (Va. Sup. Ct. 2000). They may not be assigned without permission (even in bankruptcy) and security interests may not be granted in them. The only safe way to secure an interest in a domain name is to (1) get it assigned to your client and have your client’s ownership reflected in the registering
registrar’s records, (2) hold an assignment in escrow with a power of attorney, or (3) require borrower to change to a registrar other than NSI, since NSI is difficult to deal with, and register all new domain names with the new registrar.

Related web site issues include: proper use of trademark and copyright notices at the web site, protection of proprietary operating systems with patents and trade secrets, assignments, licenses, releases, warranties and indemnities from content providers and developers.

P. Failure to Properly Record Assignments and Security Interests

The assignee of a federally registered mark must file the assignment with the PTO within three months to keep a subsequent innocent assignee from voiding the assignment. 15 U.S.C. § 1060. As noted above, generally an ITU trademark application can only be assigned to a successor to the business of the applicant. The Clorox Co. v. Chemical Bank, 40 U.S.P.Q.2d 1098 (T.T.A.B. 1999).

There is no preemption of federal system for recording a security interest in a trademark. Trademarks are, therefore, subject to UCC- Article 9 and treated as a general intangible asset. A UCC-1 financing statement on a trademark should be filed in the state where the debtor business has principal place of business. In re 199Z, Inc., 137 Bankr. 778 (Bankr. C.D. Cal. 1992); Matter of Roman Cleanser Co., 43 B.R. 940, 225 U.S.P.Q. 140 (Bankr. E.D. Mich 1984), aff’d, 802 F.2d 207 (6th Cir. 1986). Because trademark assignments of federally registered trademarks must be filed in PTO assignment records, those records should be checked to verify that the debtor holds title to the mark. Although a security interest is not an assignment, conservative practice is to also record the security interest in the PTO assignment records to put more of the world on notice of your client’s claimed right and to cut off the rights of “subsequent purchasers of value without notice” of the security interest. 15 U.S.C. § 1060.

An assignment or conditional assignment used for security interest purposes which violates the assignment-in-gross rule discussed above is ineffectual. Green River Bottling Co. v. Green River Corp., 997 F.2d 359 (7th Cir. 1993); Haymaker Sports, Inc. v. Turion, 581 F.2d 257 (C.C.P.A. 1978). Thus, a security interest in a trademark should minimally include a security interest in its associated goodwill and preferably also in associated products, equipment and business.

Q. Neglect of Foreign Issues

One who sees a trademark used in one country may preempt the senior trademark user from entering a second country by being the first to use or register in the second country. Person’s Co. v. Christman, 900 F.2d 1565 (Fed. Cir. 1990). This emphasizes the territoriality of trademark rights. The result may be different if the foreign trademark is already famous or if the junior user adopted the mark in bad faith for the purpose of blocking the foreign trademark owner’s expansion. Carney,


While trademark rights are determined country by country, business is becoming more international. Clients who appear likely to expand outside of the United States should consider obtaining trademark registrations in foreign countries to avoid being blocked from expanding abroad by other companies’ trademark registrations in the target foreign countries. Further, any company with a web site is in international commerce and may be infringing a foreign trademark rights. While the good faith of a the user of a mark is a concern for American courts, this may not be the case in a country like Singapore. Consequently, for some clients, one should be aware of not only domestic trademark law but international trademark law as well. Several commercial trademark watch services are available.

R. Neglecting Junior User Rights

A senior user/federal registrant does not necessarily have the exclusive right to use the mark throughout the United States. If a territorially remote junior user adopted a mark in good faith after the senior user/registrant’s first use but before the senior user/registrant filed its application for a federal trademark registration, the junior user may have exclusive rights in the mark for a limited geographical area. Peaches Entertainment Corp. v. Entertainment Repertoire Assets, Inc., 62 F.3d 690, 35 U.S.P.Q.2d 1772 (5th Cir. 1995) (Innocent junior user given exclusive rights within its trade area as 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). The senior user’s use of the mark in the junior user’s territory on these facts would comprise an unlawful infringement of the junior user’s rights. This possible outcome makes it advisable to learn the junior users date of first use before sending a cease and desist letter stating that the party’s marks are confusingly similar.

S. Acquisition Due Diligence Issues

A comprehensive discussion of this topic is impossible in this paper. A brief hit list may be helpful. You may need to check: (1) Registered marks. (a) Federal registrations/applications; (b) state registrations/applications; (c) foreign registrations/applications; (d) assignments made and recorded; (e) maintenance requirements docketed and current; (f) trademark use is continuing in the jurisdiction. (2) Common law marks. (a) old products; (b) new products; (c) intended products; (d) packaging; (e) slogans; (f) logos; (g) graphics; (h) web page; (i) designs; (j) domain names; (k) 800 numbers (l) domain names registered; (m) trade dress;
IV. COPYRIGHTS
A. Failure to Recognize That a Work is Copyrighted

Copyright protection extends to more items that is generally understood. Generally, all original creative expressions which are fixed in tangible form are copyrighted. The “creative” standard is low; while a blank form or a title is not copyrightable, it does not take much more for the question of copyrightability to at least arise. Feist Publications, Inc. v. Rural Tel. Service Co., 111 S.Ct. 1282, 18 U.S.P.Q.2d 1275 (1991). (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].) Examples of items that are copyrightable are buildings, customer lists, non-functional shape of a product container, correspondence, operations manuals, performances, software, computer chips, etc. “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.

Thus, the first defensive copyright matter is the issue recognition ability of knowing to consider whether the matter at hand might be copyrightable.

B. Misidentifying The Owner of The Copyright

The author of a work owns its copyright right. Beyond this, ownership issues promptly become legally complicated and fact intensive.

The employer is the author if the work is created by (a) an “employee,” (b) working within his or her scope of employment. A work created by an employee outside of the scope of employment belongs to the employee, not the employer. Community For Creative Non-Violence v. Reid, 109 S.Ct. 2166, 10 U.S.P.Q.2d 1855 (1989); Restatement (Second) of Agency § 2, 220, 228 (non-exhaustive list of factors in § 220). The Supreme Court held that agency common law was relevant to analyze the defining “within the scope of employment” and cited the Restatement (Second) of Agency § 228 (1958) which provides “(1) an act 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.” The comments to § 229 state that acts incidental to authorized acts may be within the scope of employment: “Acts incidental to authorized acts. An act may be 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). The Restatement’s discussion of scope of employment concerns respondent superior liability of the employer for the tortious acts of the servant and was not written with copyright ownership issues in mind.

If more than one person contributed to the work, then each person’s separate contribution needs to be identified and judged to determine if the person’s contribution uses to the level of authorship. A work created by more than one author may be a collective work, a work created by co-authors, a first work created by a first author and second derivative work created by a second author or by co-authors, etc. “The authors of a joint work are co-owners of copyright in the work.” 17 U.S.C. § 201(a). A work is not a joint work unless more than one author add independently copyrightable contributions. BancTraining Video Systems v. First American Corp., 21 U.S.P.Q.2d 2014 (6th 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).

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 1366; 38 U.S.P.Q. 2d 1430 (9th Cir. 1996). Authorship is a critical determination and is fact intensive beyond the possibility of setting out a simple chart from which answers can be reliably found.

A buyer can own the copyright only if he has a written assignment of the copyright from the copyright owner. “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 . . . .” 17 U.S.C. § 102. If you buy a copyrighted item such as a book you have purchased the single copy and not any copyright rights. While you can read, use, resell or lend your single copy, it is unlawful to reproduce, adapt, distribute copies, perform or display it. While a copyright license, an agreement granting less than all of the ownership rights, does not need to be in writing, oral agreements are unreliable. Most businesses should have many signed standard copyright assignments because so many things are copyrighted.

To avoid unpleasant surprises, everyone connected with the creation of copyrightable works used in a client’s business should sign a copyright assignment.

A sample assignment is:

“Assignor hereby sells and fully assigns to Purchaser any and all right, title and interest in all the works and items described below, throughout the world and forever, including but not limited to the entire right, title and interest in any and all intangible, moral, or 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 he or she is the sole author of these works and that use of the rights transferred herein will not infringe the rights of any third party. This is the entire agreement with respect to its subject matter, is governed by Texas law, and shall be construed according to its fair meaning and not for or against either party.”

As discussed below, an assignment of a registered copyright which is not recorded in the copyright office within three months is not enforceable against a later innocent, bona fide purchaser.

C. Not Obtaining a Copyright Registration

While it is true that the copyright right is created as soon as the work is fixed in tangible form, as a practical matter, many copyright infringement actions are not worth bringing unless the copyright right is protected by a registration obtained within three months of the work’s first publication or before the infringement began. This is because, in the absence of a timely obtained registration, the successful domestic copyright owner is typically unable to obtain attorney’s fees and statutory damages. 17 U.S.C. § 412.

In contrast to the technically legally correct statement above, as a practical matter, most copyright rights do not need to be registered. Given the huge volume of items copyright created” all letters sent, your notes of this talk, every third grader’s art class drawings, etc., the likelihood that any particular work will be the subject of copyright litigation is remote. If, however, the client’s particular copyrighted work is something that is likely to be the subject of infringement and is important enough for the client to care about the infringement, then the $20 filing fee and ease of completing a copyright application form make obtaining a copyright registration advisable. The problem is that, while it is easy to determine in hindsight what works should have been registered, it is difficult to make that determination ahead of time.

If a group of works is important, you may want to obtain a separate registration for each separate work rather than accumulating several works into a single registration. The reason for this is that statutory damages are awarded for each registration infringed. If, for example, a cartoonist has five daily cartoon strips, they could either be registered as a collection in one registration or each separately registered. If an infringer copied all five of the cartoon strips, statutory damages in the first instance is limited to $100,000 while in the latter circumstance the court could award statutory damages up to $500,000, i.e., $100,000 times five registrations. Szabo v. Errison, 36 U.S.P.Q.2d 1721 (5th Cir. 1995).

Again, since this “I should have registered each separately” knowledge is only acquired in hindsight, this is a business risk/reward decision that should be placed on the shoulders of the client by informing the client of the matter.


D. Failure to Use Proper Copyright Notice

Clients typically need to be repeatedly advised to put a proper copyright notice on copyrighted works. Although failure to properly place a copyright notice on copyrighted works is not as critical as it once was, putting a proper copyright notice on copyrighted works is free and has some benefit. Prior to March 1, 1991, copyright rights could be forfeited through publication without proper notice. Even if the copyright was not forfeited, if the work was publicly distributed before March 1, 1988, without a copyright notice or with a copyright notice that misled the infringer then, 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. 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). If the work is revised, the year date of the original publication and the year date of each published revision should be included. Example: “Copyright, Mark Miller 1989-98.” If the copyright right may be important in Latin America, the words “all rights reserved” must be included in the notice. Some items protected by copyright in the U.S. must be protected in foreign countries by design patents or as industrial designs which must be filed within statutory periods. 1 Nimmer,§ 5.05[B][2][C].

E. Failure to Check Duration Issues

Duration issues for copyrights created in the United States since January 1, 1978, are unlikely to cause malpractice problems in our lifetime. The duration of copyright rights for works created since January 1, 1978, is life plus 50 years if the author is an individual and the earlier of 75 years from publication or 100 years from creation for works created for hire, i.e., created by employees in their scope of employment. Generally, works copyrighted before January 1, 1978, are protected for an initial term of 28 years, and, if renewed, for a renewal term of 47 years, for a total of 75 years.

Unfortunately, however, pre-January 1, 1978, copyrights rights, restored right (via GATT) are subject to numerous extensions, exceptions, untransferred renewal rights, etc., and need to be specifically looked at in each instance. The different rules concerning duration and rights for pre-January 1, 1978, works are too byzantine for any but the most focused copyright petitioner to be continually fully cognizant of. 17 U.S.C. § 203. For example, transfers executed before January 1, 1978, may be terminated between the 56th and 61st year from the date the copyright was originally secured. 17 U.S.C. § 304, and copyrights may only be renewed by the author or his successors, i.e., not the assignee, unless the renewal right was specifically assigned. Giving the wrong answer to a duration question or, worse, not realizing that the question has been posed, can be disastrous.

F. “Fraudulent” Copyright Application

While copyright applications are relatively simple, care should be taken with them because inequitable conduct in obtaining a copyright registration invalidates it. Ganz Inc. v. ALN Association, Inc., 770 F. Supp. 1261 (N.D. Ill. 1991) (copyright unenforceable due to improper copyright application), aff’d, 974 F.2d 834 (7th Cir. 1992); Lasercomb America Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990); Whimsicality Inc. v. Rubies Costumes Co., 891 F.2d 452 (2nd Cir. 1989) (deliberate misclassification in application invalidated copyright); GB Marketing USA Inc. v. Gerolsteiner Brunnen GmbH & Co., 782 F. Supp. 763 (W.D. N.Y. 1991) (knowing failure to disclose material information in copyright application invalidated the copyright).


G. Copyright/Antitrust Interface Issues

Copyright misuse is “use of the [copyright] to secure an exclusive right or limited monopoly not granted by the [Copyright] Office and . . . contrary to public policy.” Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 972 (4th Cir. 1990). An offending license term need not rise to the level of an antitrust violation. Whether market power is required is unclear. United States v. Microsoft Corp., 87 F. Supp. 2d 30 (D.D.C. 2000) (Copyright owner is not entitled to use copyright ownership in ways that threaten competition). Alcatel USA Inc. v. DGI Technologies, Inc., 166 F.3d 772 (5th Cir. 1999) (software agreement which limited the software’s use to the copyright owner’s hardware was misuse because it created patent-like protection).


License requirements sometimes held to comprise copyright misuse include:

Licensee agrees not to create competing products. Lasercomb.

Licensee agrees not to use competing products. Practice Management.

Copyright owner enforces license terms which effectively prevent development of non-infringing works. Alcatel USA.

It is unclear whether restricting reverse engineering or restricting the licensee from dealing in the copyrighted products of others comprises a misuse. Reliability Research Inc. v. Computer Associates International Inc., 793 F. Supp. 68 (E.D. N.Y. 1992) (copyright license which contained a grant back clause, i.e., transfers the licensee’s copyright rights in new creations to the copyright owner/licensor, could comprise misuse). See, Ganz Inc. v. ALN Associates, Inc., 974 F.2d 874 (Fed. Cir. 1992). Since the misuse can be in an agreement with a third party, the defendant’s attorney may take discovery
into the copyright owner’s third party license agreements.

H. Informal Infringement/ Non-Infringement Opinions

Anyone who uses a 17 U.S.C. §§106, 106(A) or 602 right without authority in the United States is a direct infringer. Copyright infringement is in the nature of strict liability since the defendant does not have to know that he is unlawfully copying. Marobie-FL, Inc. v. National Association of Fire Equipment Distributors, 983 F. Supp. 1167 (N.D. Ill. 1997).

A defendant infringes if (1) plaintiff’s work is protectable (originality, authorship, compliance with copyright formalities. 17 U.S.C. § 401(c). (2) defendant copies plaintiff’s work, and (3) defendant’s work is substantially similar to the protectable part of plaintiff’s work. 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. Mnemonics, 79 F.3d 1532 (5th Cir. 1995)), and (3) a “comparison” step comparing the remaining protectable portion of plaintiff’s work with the defendant’s work. Compare, Computer Assocs. Intern., Inc. v. Altair 982 F.2d 693 (2nd Cir. 1992), with Lotus Dev. v. Borland Int’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” the allowable scope of protection afforded it. Matthews v. Freedman, 157 F.3d 25 (1st Cir. 1998) (“Someone went to Boston and got me this shirt” not infringed by “Someone who loves me very much” not infringed by “Someone who loves me went to Boston and got me this shirt”).

The Fair Use Doctrine limits an author’s exclusive rights concerning certain reproductions, such as for criticism, news reporting, teaching, etc. 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). 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 the copyrighted work. 17 U.S.C. § 107. 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., 99 F.3d 1381, (6th Cir. 1996) cert. denied, 117 S. Ct. 1336 (1997) (copying excerpts for student use a fair use. Excellent Fair Use Doctrine discussion.)

An important limitation on the copyright owner’s rights is the First Sale Doctrine. The copyright owner’s copyright rights in the copy of the work in question are extinguished upon his first sale of that copy. American Int. Pictures, Inc. v. Foreman, 576 F.2d 661, 664 (5th Cir. 1978).

These issues are more fully dealt with in Mark Miller, Copyright Infringement: What it is, how to deal with it, at www.jw.com, University of Houston IP Seminar (2001).

Duration issues for copyrights created in the United States since January 1, 1978, are unlikely to cause malpractice problems in our lifetime, just assume the copyright right is still alive. Unfortunately, pre-January 1, 1978, copyrights are subject to extensions, exceptions, untransferred renewal rights, etc., that are too byzantine for any but the most focused copyright practitioners. 17 U.S.C. § 203. You will never remember how to calculate copyright duration or ownership for pre-January 1, 1978 works, but try to remember to ask the question.

I. Not Knowing About Moral Rights

The main malpractice problem here is issue recognition. The author of narrowly defined visual artworks has “moral rights.” Qualifying works of visual art are “a painting, drawing, print, or sculpture,” or “a still photographic image produced for exhibition purposes only” restricted to 200 or fewer limited editions of 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 the work to which the waiver applies. The waiver applies only to the identified work and uses. 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, 33 U.S.P.Q.2d 1225 (S.D.N.Y. 1994), reversed on other grounds, 71 F.3d 77, 37 U.S.P.Q.2d 1020 (2d Cir. 1995)(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 (2nd Cir. 1976)(Monty Python prevented broadcast of edited show).

J. Failure to Properly Record Assignments and Security Interests

Assignments of copyright must be recorded in the Copyright Office. “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 and there is no grace period within which to file the assignment to protect
against the assignor validly licensing to a good faith licensee. Until you record the assignment to your client, the assignor can continue to grant licenses.

A security interest in a copyright right that is not recorded in Copyright Office is not perfected.broadcast music, inc. v. staenberg, 36 u.s.p.q.2d 1495 (c.d. cal. 1990)

In contrast, licenses governed by state law and typically do not have to be written or recorded to be effective. 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, 15 u.s.p.q.2d 1559 (9th cir. 1990), cert. denied, 111 s.ct. 1003 (1991); maclean assoc., inc. v. wm. m. mercer-meidinger-hansen, inc., 952 f.2d 769 (3rd cir. 1992) (non-exclusive implied license to use only in its business to employer whose employee authored software outside of his scope of employment.)

There is considerable litigation and confusion concerning the difference between a license and an assignment.

K. Acquisition Due Diligence Issues

A comprehensive discussion of this topic is impossible in this paper. A brief hit list may be helpful. You may need to check: (1) Copyrightable Subject Matter. (a) art work, (b) decorations, (c) photographs, (d) computer programs, (e) text, (f) audio visuals, (g) manuals, (h) advertisements, (i) promotional materials, (j) customer presentations, (k) webpage, (l) mask works; (m) drawings; (n) buildings; (2) The Source of Each. (a) independent contractors, (b) in-house, (c) assignments, (d) are assignments recorded, (e) licenses, (f) work for hire, (g) beyond scope of work for hire, (h) is it an assignment or a license; (3) Registrations. (a) what was registered, (b) changes in the current edition not present in the registered deposit materials, (c) what has not been registered; (4) Agreements. (a) assignments and licenses, (b) encumbrances, (c) limitations.

V. PATENTS

A. Informal “It is/is not Patentable” and “It is/is not Infringing” Opinions

As patent attorneys we get asked repeatedly if one idea or another is patentable or device or method is infringing. The requests may be at an informal gathering or via letter seeking a formal opinion. Because a negligent informal opinion can sometimes hang us as effectively as negligent formal opinion our shields should go up (Star Trek) whenever we are asked for such opinions. If we recognize the question as being a potential landmine, then we can treat it accordingly. The point is to create such awareness.

B. Unreliable Patentability Opinions

Patentability opinions have several traditional problems. The first is not properly defining the invention to the patent searcher. Many patent search requests are too general for the patent searcher to know specifically what the invention is. The patent search request should not merely describe the invention but attempt to convey possibly patentable combinations to the searcher. This helps the searcher focus on the particular possible patentable combination that is of interest to the inventor.

Second, the patentability opinion should be both brutally honest and vague. If you really think the client is unlikely to obtain any patent protection or, more typically, is unlikely to obtain commercially viable patent protection, then the client should be frankly told this in writing, early on. Otherwise, the typical inventor will act on any glimmer of hope and file an application you know is doomed. Eighteen months down the road when the final rejection comes in, you may be the villain of the piece for having permitted the inventor to waste his or her money on the application. voight v. kraft, 342 f.3d 1371 (fed. cir. 1998), cert. denied, 525 u.s. 1093 (1999).

On the other hand, a patentability opinion needs to be sufficiently vague to take into account the fact that the workings of the United States Patent and Trademark Office are mysterious and not entirely predictable. Every patent attorney has had claims rejected which should have been allowed and has had claims allowed which should have been rejected. Guaranteeing that an invention is or is not patentable is usually inappropriate.

A further problem is that if useful claim coverage is obtained in spite of your gloomy patentability opinion, then your opinion will be used against your client when the client enforces the patent. Anyone who has a foolproof solution to this dilemma should forward it to this author.

1. Patentability

Generally, an invention only needs to be (1) useful, (2) novel and (3) non-obvious to a person of ordinary skill in the trade to be patentable. 35 u.s.c. §§ 101, 102, 103. It does not need to create a revolution in technology or be created in a flash of genius to be patentable. An incremental improvement or new combination of off-the-shelf components arrived at by trial and error may produce a patentable invention.

Business method patents, such as the amazon.com “1-click” patent are now the rage. Your client’s new way of advertising for customers, of asking customers whether they want to upsize their purchase by adding fries to that and rounding the price off to the nearest dollar, etc., may comprise valuable patentable subject matter “[A]nything under the sun that is made by man” is patentable subject matter. state bank & trust co. v. signature fin. group, 149 f.3d. 1368 (fed. cir. 1998), cert. denied, 525 u.s. 1093 (1999).

C. Unreliable Infringement/Non-Infringement Opinions

1. Utility Patents

Infringement is primarily determined from a patent’s claims. To give the public fair notice of what a patent covers, “each element of a [patent] claim is material and essential, and in order for 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 Rule). This may be done by either (a) literal correspondence of each element in the claim with the accused device or (b) equivalent correspondence due to “insubstantial” differences between each element of the claim and 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 steps of the accused device or process.” Festo Corp. v. Shoketsu Kinzoku Kogyu Kabushiki Co., 187 F.3d 1381, (Fed. Cir. 1999).


The more elements in an invention, the more likely it is patentable. On the other hand, the more elements needed to make the invention patentable, the less likely a patent on it will prevent competition. The art of obtaining a valuable patent rather than a so-so patent involves drafting the application and negotiating with the patent examiner with this contradiction in mind.

2. Design Patents
Design patents protect the ornamental, not the functional, characteristics of an article of manufacture. An accused device infringes a design patent if, to the ordinary observer, the two designs are substantially the same and the accused device includes the points of novelty of the design patent. Winner Int’l Corp. v. Wolo Mfg. Corp., 905 F.2d 375 (Fed. Cir. 1990). Although the vast majority of patents are utility patents, design patents can be valuable, especially when used to protect a market leader against knock-offs.

D. Not Clarifying Who Is The Client
Not knowing who your client is a problem that is not limited to intellectual property law. A familiar fact pattern, however, is that the employer comes in with or without an employee to seek a patent upon the employee’s invention. The employer is paying the bill and giving the instructions. Based upon conferences with the employee about the invention, you prepare and file a patent application. Down the road, the employer and employee dispute ownership of the patent application. Who do you represent?

Insufficient facts are given in this example to answer the question. However, you may be prosecuting the application on behalf of the inventor, i.e., the employee, even if the employer is paying your bill. In the absence of a written assignment only the employee’s name is on the patent application, not the employer’s. Worse, regardless of who a cosmic arbiter would say you represent on your particular facts, unless you made the matter clear up front, the employer and employee will likely each assert that you represent only it. Regardless of who you judge to be the client when the employer and employee come in holding hands, self-protection requires that you advise both the employer and employee, that they need to tell you who is your client and that if the employee is to own the invention that you get a written assignment to the employer. It is in the attorney’s own self interest to inform the inventor of the potential adversity which could arise between the inventor’s and the employer’s interests.

E. Patent/Antitrust Interface Issues
A patent is a lawful monopoly. U.S. antitrust law makes misuse of monopolies unlawful. The interface between these two contrary public purposes creates shoals that can cause problems.

First, a patent monopoly does not in and of itself establish that the patent owner has the economic market power necessary to support an antitrust cause of action. 37 U.S.C. § 271(d). Nevertheless, if you are fortunate, the patent will in fact create economic monopoly power in favor of your client which will invoke antitrust law generally. Further, a patent holder cannot condition the sale of the desired patented item upon the customer’s purchase of an unwanted, unpatented item. Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969); Brulotte v. Thys Co., 85 S. Ct. 176 (1964). If the patent licensor has economic monopoly power in the line of commerce, then a grant-back clause (the licensee grants back to the patent licensor ownership of improvements that the licensee may invent) may comprise an unlawful extension of monopoly power.

Second, many licensors of trademarks, know-how, copyrights, contract rights or the like also own patents which are relevant to the subject matter of the license. A franchisor or other business granting an exclusive distribution right may own a relevant patent. It is natural for a licensor to include a license to relevant patents along with the other rights being licensed. This is a perfectly rational business practice. Further, although a patent has a limited life of 20 years from its priority filing date, the life span of the parties’ joint business endeavor may not nicely coincide with the patent’s expiration date. Often the licensee’s duty to pay compensation to the licensor continues undiminished until the parties’ relationship ends because the patent license was never the crux of the deal. This is rational economic behavior and happens all the time.

However, some unquantifiable part of the licensee’s early royalties are presumed to comprise compensation
to the licensor related to the patent monopoly. Antitrust law prohibits a patent owner from (1) leveraging his lawful patent monopoly to obtain royalties during the patent’s term; (2) to coerce licensees into paying royalties after the patent expires. This is an unlawful extension and misuse of the patent monopoly. Bruotte v. Thys Co., 85 S. Ct. 176 (1964).

What is particularly scary about these misuse rules is that the patent owner’s violation of them in some other agreement with an unrelated third party may preclude the patent owner from enforcing his contract rights in the instant unrelated agreement. Berbenbach v. Anderson & Thompson Ski Co., 329 F.2d 782 (9th Cir. 1964), cert. denied, 379 U.S. 830 (1964).

The technical solution is to have the license agreement credit some discrete amount of royalty to each patent which will expire during the term of the license relationship and to reduce the license’s royalty payment requirements by such amounts as each patent expires. Baladovon, Inc. v. Abbot Laboratories, 871 F. Supp. 89 (D. Mass. 1994). Few transactions attorneys want to do this because of the enforcement issues it causes. Bonday, Inc. v. Al Bolsen Tire Stores, Inc., 228 U.S.P.Q. 211, 1985 WL 5702 (W.D. Wash. 1985), aff’d, 809 F.2d 788 (1986).

Most transaction attorneys have had deals come across their desk which included an unreduced payment requirement extending beyond the expiration of some patent that was licensed in larger deal. The saving grace is that typically the lawyers on the other side were equally unaware of this problem. Basically, if a patent is part of what is part of the overall license, the better part of valor to check with a patent attorney.

F. Prosecution Issues

1. Failure to Properly Record Assignments and Security Interests

An assignment of patent rights needs to be recorded in the PTO within three months to avoid its being void against a subsequent innocent bona fide purchaser. 35 U.S.C. § 261. Failure to include an assignment of pre-existing causes of action together with the assignment of the patent itself can substantially reduce your assignee client’s recovery in subsequent patent litigation.

A security interest in a patent must be properly recorded in the assignment records of the United States Patent and Trademark Office to be perfected. 35 U.S.C. § 261.

2. Lack of Technical Competence

Most patent applications concern garden-variety mechanical inventions that any patent attorney is qualified to deal with. Others require some boning up to deal with their subject matter. Others, however, are simply beyond the particular practitioner’s technical competence. Medical and biotech applications are, for example, are recognized as being accessible only to their disciples. There are gradations of this problem and other fields and sub-fields in which the general practitioner or the specialist in other areas is not technically competent. Learning to quickly recognize that you are not the proper patent attorney for the particular invention because you lack technical competence in the area is a survival skill.

3. Improper Determination of Inventorship Issues

Determination of inventorship is legally difficult and made upon shifting factual grounds. If two or more people contribute to the invention, they are joint inventors. All of the inventors must be listed as joint patentees in the patent application. 35 U.S.C. §§ 102(f), 116. Inventorship can change during prosecution of the patent application as claims are modified in response to prior art cited by the examiner. An assignee of an inventor’s invention can file the patent application in the inventor’s name. 35 U.S.C. § 118.

Joint inventorship raises many difficult questions. The parties should be apprised that, if the patent ends up with joint inventors, each joint inventor is free to license the entire patent to anyone they desire, unless they have an agreement to the contrary. In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use or sell the patented invention without the consent of and without accounting to the other owners.” 35 U.S.C. § 262. Such joint inventors may engage in a race to the bottom as each seeks to underbid the other in offering lesser royalty rates to prospective licensees. This effectively destroys the value of the patent.

It is unnecessary for each individual who is working on the invention to have contributed to each claim in the patent. Joint inventorship can occur when one group makes an imperfect embodiment of the invention, and a different group perfects the embodiment. Because of the requirement that “the” inventor apply for the patent, some patents require a long inventor list. Failure to include all the inventors with deceptive intent renders the patent unenforceable.
4. Delay In Filing and Prosecution

Delay in filing an application has numerous obvious disastrous possibilities. A single offer to sell, whether by the inventor or a third party, starts the one year bar running. 35 U.S.C. § 102. A § 102 offer to sell requires (1) the complete claimed invention must be embodied in or obvious in view of the thing offered for sale; (2) the invention must have been known to work for its intended purpose (including testing if needed) and (3) the sale must have been primarily for profit rather than experimental purposes. (The third element is unnecessary to finding a § 102 sale if the third party is not performing under the inventor’s control. In re Hamilton, 882 F.2d 1576 (Fed. Cir. 1990).) King Instrument Corp. v. Otari Corp., 767 F.2d 853 (Fed. Cir. 1985). Seal-Flex, Inc. v. Athletic Track and Court Construction, 98 F.3d 1318, 40 U.S.P.Q.2d 1450 (Fed. Cir. 1996). Your client’s acts which started the bar date running may have been earlier than what he or she has told you. Other inventors may file applications and become the senior applicant in an interference. Other events may put the invention into the public domain.

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 the patent application is filed, 35 U.S.C. § 102(b)(d); (3) is described in a patent application filed before your application and the other application is granted as a patent, 35 U.S.C. § 102(e); or (4) abandonment, 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.

Balanced against these possible dire time caused effects is the fact that the client may want additional time to either perfect the invention, to determine if the invention is commercial, etc. Further, no patent attorney who has more than one application to file cannot give 100% priority to all of the applications. Our time must be triaged. Nevertheless, since the consequence of missing a bar or priority date, known or unknown, is the inventor’s inability to obtain a patent, bar date and priority issues should be discussed with the client and prominently docketed. Unfiled applications do not get better with age.

Once an application is filed, its 20 year duration begins to run. Although the patent attorney may technically wait the standard three months and, by paying fees, wait an additional three months before responding to an Office Action, the delay of one day in responding technically takes one day away from the client’s ultimate patent monopoly. Whether each day’s delay is reasonable and is or is not commercially important will vary according to the circumstances.

5. Foreign Filing Problems

The United States is a member of the Patent Cooperation Treaty, which allows foreign patents the same protections accorded to U.S. patents. A patent filed with a PCT international examining authority, is equivalent to filing with the PTO as long as the United States is designated as a country of filing on the international application. By taking full advantage of the PCT by properly timing your elections and payments, you can prolong entry into the national phase of filing patent applications up to 30 months from the initial PCT filing.

Nevertheless, most foreign countries follow a first-to-file rule, i.e., the first person to file a patent application on the idea wins all priority contests and have an “absolute novelty” requirement rather than the U.S.’s one-year grace period. Any commercialization or public disclosure of the invention anywhere before filing the application bars most foreign filings. 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 patents in most foreign countries (Canada and Mexico have the one-year grace period).

Some foreign countries will not accept priority from the date of the U.S. filing. Because U.S. citizens cannot file foreign patents (except under the Patent Cooperation Treaty) without permission of the U.S. Patent Office, it is necessary to plan desired foreign patent protection in advance of making the invention available to the public.

6. Inequitable Conduct In Prosecuting The Application

Countless papers and treatises have been written on the duty of candor. 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). Although fraud on the Patent Office currently is a less popular attack on patent validity the consequences of failing to make full and complete disclosure should be provably discussed with the client.

7. “Improper” Claiming

go give the public fair notice of what the patent covers, it must have claims “particularly pointing and distinctly claiming the subject matter which the applicant regards as his invention.” 17 U.S.C. § 112. “It is . . . well settled that each element of a claim is material and essential, and in order for 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, 20 U.S.P.Q.2d, 1456, 1459 (Fed. Cir. 1991) This may be done by either (a) literal correspondence of the elements of the claim with the accused device or (b) equivalent correspondence due to “insubstantial” differences between the claim and the accused device. The patent’s prosecution history is important in determining equivalence. Warner-Jenkinson Co., Inc. v. Hilton Davis, 117 S.Ct. 1040, 41 U.S.P.Q.2d 1865 (1997) (Accused filtration process run at 5.0 ph infringed patented process that was claimed “at a ph from approximately 6.0 to 9.0” because although the upper ph limit was included to distinguish the claim from the prior art, there was no apparent reason in the prosecution history for including the lower ph limit.) Equivalence is usually shown by comparing the function/way/result of the claim limitations with the function/way/result of the corresponding element of the accused device. Compare, Corning Glass Works v. Sumitom 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). Where the meaning of the claim is unclear, the judge instructs the jury what it means. Markman v. Westview Instruments, Inc., 116 S.Ct. 1384, 38 U.S.P.Q.2d 1461 (1996).

Some patent attorneys deliberately claim a little too narrowly with the expectation of the application issuing without any rejections or bad prosecution history statements which would limit use of the doctrine of equivalence to broaden claim coverage in a subsequent patent infringement suit. There are wonderful arguments for and against this strategy. One argument against it is that, if the client does not ultimately prevail in the courtroom due to the claim being too narrowly drafted, the client may sue the patent attorney for malpractice. Luk Lamellen U Kupplungbau GmbH v. Lerner, 560 N.Y.S.2d 787 (N.Y.App.Div. 1990).

An alternative strategy chosen by other patent attorneys is to deliberately submit claims that are drafted a little too broadly with the expectation that the broadest claims will be rejected. The Patent Office rejections are proof against a client’s subsequent attack, as discussed above, that the patent attorney claimed the invention too narrowly. The difficulty of this approach is that it creates rejections and bad prosecution history statements which limit use of the doctrine of equivalence to expand the patent’s claim coverage.

A third body of opinion is that the claims should be drafted exactly to the edge of where the patent attorney subjectively believes that the invention’s true patentable claims lie. Because the patent attorney’s subjective opinion is not binding on the Patent Office, this approach clearly borrows some of the trouble and obtains some of the benefits of both of the above approaches.

All three approaches have their adherents. From a malpractice avoidance point of view, the best that can be done is to provably discuss the issue with the client and to implement the client’s decision.

Beyond these strategic decisions, the tactics of patent claiming are detailed, often counter-intuitive, and implemented upon a treacherously shifting landscape of rules. That the use of “means” in claims pursuant to 35 U.S.C. § 112(6) results in a narrower claim than if a generic term having an understood meaning had been used is merely one example among many of the need to keep up with the changing rules concerning claim drafting. In Re Donaldson, 16 F.3d 1189, 29 U.S.P.Q.2d 1845 (Fed. Cir. 1994). Previously well drafted generic claims are now being unvalidated under 35 U.S.C. § 112 for lack of a written description if they reach beyond the specifications examples. Lockwood v. American Airlines, 107 F.3d 1565, 41 U.S.P.Q.2d 1961 (Fed. Cir. 1997) and Regents of U.C. v. Eli-Lilly, 119 F.3rd 1559, 43 U.S.P.Q.2d 1398 (Fed.Cir. 1997).

8. Failure to Disclose the Invention’s Best Mode  

he application must “contain a written description of the invention and of the manner and process of making and using it in such full, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected to make and use the same, and shall set forth the best mode of making and using it in such full, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected.” 17 U.S.C. § 112. “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, 37 U.S.P.Q.2d 1388 (Fed. Cir. 1996). This creates another malpractice opportunity, i.e., a court judgment that the patent is valid and infringed but for its being invalid due to your failure to disclose the best mode in the application’s specification.

G. Acquisition Due Diligence Issues  

A comprehensive discussion of this topic is impossible in this paper. A brief hit list may be helpful. You may need to check: (1) Issued Patents.. (a) scope; (b) duration; (c) validity; (d) marking; (f) U.S. and foreign; (g) maintenance fee requirements docked and current; (h) assignments made and properly recorded; (i) inventor search of key employees for patents not assigned to company; (j) third party infringing uses. (2) Pending Applications. (a) office actions; (b) CIP’s; (c) divisional applications; (d) discussions with patent attorneys and inventors; (e) possible PCT and foreign filings. (3) Unpatented Inventions. (a) what products, services, methods of doing business, and designs are under development; (b) what products, services, methods of doing business and designs have recently been released or improved; (c) scope of possible patentability; (d) nondisclosure agreements; (e) statutory bars (U.S. one year, most foreign countries – absolute novelty); (f) inventorship; (g) other possibly profitable uses; (h) assignments and
agreements to assign; (i) patentability searches; and (j) opinions of counsel. (4) Patent related agreements (to and from). (a) assignments recorded; (b) licenses; (c) indemnification; (d) settlement; (e) options; (f) rights of first refusal; (g) other commitments; (h) terms; (i) scope; (j) docket duration of patent and expiration of agreement; (k) security interests recorded. (5) Third party patents. (a) issued patents we infringe, domestic and foreign; (b) pending applications laid open for public view that we will infringe, domestic and foreign.

H. Negligent Designing Around/Non-Infringement Opinions

The first issue in giving an opinion is to be aware of what you are doing. “Yeah, you look to be ok” is an opinion and one that you can be sued if later judges and juries do not agree with it.

Second, particularly given recent decisions concerning the doctrine of equivalence, assisting in designing around a patent or giving a non-infringement opinion can be treacherous. The steps the attorney should go through to give a designing around/non-infringement opinion that can be relied on in court are well known. Review the patent claims, review the specifications, review the file wrapper, review the cited prior art, do an independent search of the prior art, consider substitutions, etc. Merely mentioning the doctrine of equivalence in this context is sufficient to summon forth the difficulties that dealing with it in this context entails. Regardless of how thorough your research and analysis, your opinion is incomplete without a paragraph or two to the effect that your opinion is just an opinion and is not a guarantee of what a subsequent court or jury will ultimately find.

I. Improper Marking of Goods

Once a patent issues, your client needs to mark its goods which are covered by the patent with “Patent” or “Pat.” together with the number of the patent to recover patent infringement damages for infringement time prior to putting the infringer on actual notice. 35 U.S.C. § 287(a). The malpractice issue is to provably inform your client of this.

J. Failing to Protect Improvements to Patents

Since it often takes a couple of years between filing a patent application and its issuance, as the issue date approaches, the client should be asked whether any improvements or changes have been made to the invention or are contemplated to be made to the invention. If the answer is yes, those matters need to be further inquired into and consideration given to whether a continuation-in-part application should be filed before the parent patent issues to avoid the parent patent being cited as prior art against the improvement invention. Further, the client should be contacted before two years after the issue date has expired to determine whether the client’s increased knowledge in that period of time discloses that a re-issue should be filed to enlarge the patent’s claim coverage. 35 U.S.C. § 251.

K. Unawareness Of The Applicability Of Antitrust Law

A patent is a lawful monopoly. Recent changes to patent law establish that possession of the patent monopoly does not in and of itself prove that the patent owner has the economic market power necessary to support an antitrust cause of action. 37 U.S.C. § 271(d). Nevertheless, if you are fortunate, the patent will in fact create economic monopoly power in favor of your client. If this happens, then a small amount of antitrust knowledge is required.

A patent holder has market power concerning his patented product and cannot condition the sale of an unwanted, unpatented item upon the customer’s purchase of the desired patented item. Many patent licenses contain grant-back clauses, where the licensee grants back to the patent licensor ownership of improvements that the licensee may invent. If the patent licensor has economic monopoly power in that line of commerce, then the grant-back clause may comprise an unlawful extension of monopoly power. One of the effects of an antitrust violation is invalidation of the patent.


L. Insufficient Provisional Applications

You can obtain and preserve an invention priority date for one year by filing a provisional patent application. It contains no claims, is not examined for patentability, is held in confidence by the Patent Office, lets you delay deciding whether to file a more expensive utility application for a year, and lets the client immediately mark the invention “patent pending”. The provisional application must give a [1] “written description of the invention and of the manner and process of making and using it, in such 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 [2] shall set forth the best mode contemplated by the inventor of carrying out his invention” 35 U.S.C. § 112, and [3] “the applicant shall furnish a drawing where necessary for understanding of the subject matter sought to be patented.” 35 U.S.C. § 113; 35 U.S.C. §§ 104, 111, 112, 113, 120; 37 C.F.R. § 1.131; In re Gostell, 872 F.2d 1008, 10 U.S.P.Q.2d 1614 (Fed. Cir. 1989). The provisional application is automatically abandoned unless a formal patent application is filed within one year. 35 U.S.C. § 116(b), 37 C.F.R. § 1.16(k).

The primary malpractice avoidance issue is that provisional applications tend to deliberately not have as full a disclosure as a formal application and to lack claims. If there are any bar dates prior to the formal application being filed which claims priority from the provisional application, the formal application’s validity
and scope will be limited to what can be supported by the provisional application’s disclosure. Since the typical provisional application is without claims or a rigorous effort to meet the full disclosure and best mode disclosure requirements, the invention may not be protectable with claims to the same extent as if a full formal application with a complete disclosure and claims had been originally filed. These limitations should be disclosed to the client.

Second, while a provision application does not start the 20 year patent expiration calendar it does start the PCT one-year-to-file foreign application clock. Thus, the PCT application designating other countries must be filed within one year from filing the provisional application rather than within one year from filing the formal patent application. Further, if the provisional application does not have at least one claim, it may not be given priority effect in foreign countries. Allopurinol, Fed. Rep. German Supreme Court (1974).

The advantages of provisional applications make them useful in many situations if the client is made aware of their limitations.

M. Improper Claiming In Design Patents

Attorneys filing design patents may sometimes forget the obvious, that the drawings comprise a claim and should specifically point out what is being claimed. For many objects, a realistic line drawing of the object does not specifically point out the claimed novel improvement. The features that are old in the art should be represented by dashed lines. Portions of the object which are contoured or sloped in a way that the inventor claims exclusive rights to need to be appropriately shaded. Few attorneys would submit a utility patent with a single claim. To claim a design broadly and narrowly, may require one design patent claiming the broad outlines of the invented design, together with one or more related design patents directed to particular novel details of the object. Finally, it is typically necessary to discuss with the draftsman what portions of the object the inventor claims are protectable so the draftsman will know how to draw the design patent application drawings.

The importance of the above considerations is highlighted when it is realized that, in contrast to the prosecution of utility claims, there is no specification in the design patent application upon which to base amendments to the claims (the drawings). Thus, any changes to the design patent claims would comprise an impermissible addition to new matter. This means that design patent drawings/claims need to be submitted correctly the first time.

N. Misunderstanding Shop Rights

An employee typically owns his invention unless he was hired to invent or has agreed to assign it. An employer may have a non-exclusive “shop right” to use its employees’ inventions. “Shop rights,” however, are harder for the employer to obtain and, once obtained, are less extensive than commonly believed. McElmurry v. Arkansas Power & Light, 995 F.2d 1576, 27 U.S.P.Q.2d, 1129 (Fed. Cir. 1993).

The principal requirement for finding a shop right is the employee’s implied consent that the employer can use the invention. Womack v. Durham Pecan Co., 715 F.2d 962 (5th Cir. 1983). E. Lipscomb, Walker on Patents, §§ 19:41-46 (3d ed. 1987). Teets v. Chromalloy Gas Turbine Corp., 83 F.3d 403, 38 U.S.P.Q. 2d 1695 (Fed. Cir. 1996) (Implied-in-fact contract by employee 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.) Protection of Business Investments and Human Capital: Shopright and Related Doctrines, Journal of the Patent and Trademark Office Society, Vol. 97, p. 753 (1979). To avoid messy problems, the employer should require employment agreements that assign to the employer all inventions related to the business which are conceived or reduced to practice during the employee’s employment.

A shop right is not an ownership interest in the invention. It is a non-transferrable and non-exclusive license to practice the invention.

VI. TRADE SECRETS

A. The Trade Secret Audit

You cannot protect “it” if you, your client, and its employees do not know what “it” is. Ask what your client’s business does or knows that gives the business an advantage over its competitors. Protectable trade secrets can include pricing information, customer lists, marketing plans, processes, formulas, development dead ends, etc. Relative secrecy (i.e., not generally known in the trade), not patentable novelty, is all that is required. Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1995 (5th Cir. 1986) (“knowing what not to do often leads automatically to knowing what to do”).

An outsider, preferably an IP attorney, should conduct informal periodic trade secret audits. These will likely produce a list of trademark, copyright, patent and trade secret inquiries to management that will help management intelligently decide how to deal with these issues instead of neglecting them by default. The questions to be asked are set out in Subsection E. Acquisition Due Diligence Issues.

B. Not Implementing A Security Program

A trade secret plaintiff must prove that (1) a trade secret existed, (2) the defendant learned of the trade secret through a confidential relationship or improper means, (3) the defendant used or disclosed the trade secret without the plaintiff’s authorization, and (4) the defendant profited from or the plaintiff was damaged by the defendant’s use or disclosure of the trade secret. The most common successful defenses are that the matter was not secret, or that the trade secret owner did not take reasonable precautions to keep the knowledge secret. Creole Production Servs., Inc. v. Harper, et al., 640 S.W.2d 727, 730 (Tex. Civ. App. – Houston [14th Dist.]
1. **Put Everyone on Notice**
   
   Put in your policy manual or distribute a memo explaining what trade secrets are, why it is important to the company and the employees that trade secrets be protected, and broadly identify matters that are secret. Signs, meetings, memos, etc. can be used to designate restricted areas, etc. Employees should be periodically proveably reminded of these things.

2. **Confidentiality Agreements**
   
   Each person with access to company trade secrets should sign a confidentiality agreement assigning all work, compilations, improvements, etc., to the company, requiring return of company documents upon termination and prohibiting use or disclosure of company trade secrets.

3. **Restrict Access**
   
   Access to confidential information should be on a need-to-know basis. Consider an “authorized personnel only” area for confidential materials; limited access to a limited number of copies in locked file cabinets; a shredder for confidential papers. Independent contractors and visitors who enter the facility should sign a visitor sign-in sheet which states that they will not use or disclose anything they see there without written consent. Visitor badges can be required. Access by visitors to trade secrets should be restricted.

4. **Confidentiality Legend**
   
   Confidential documents should have a confidentiality legend. These can be preprinted, be in the word processing software as an automatic footer or via a self-inking rubber stamp. The following legend may be appropriate. “Copyrighted Confidential Property of Company. Copying, Use or Disclosure Without Express Written Consent Is Prohibited.” For sensitive documents, this legend can be stamped in red ink and also state, “If this legend does not appear in read, please contact Joe Smith at (210) XXX-XXXX.”

5. **Physical Security**
   
   If important data is on computers, physical access to all connected terminals should be limited. Computers should not be accessible by telephone when communication is not intended. Use firewalls, encryption, limited access computer files and passwords. The police will make a free check of any premises and make suggestions (e.g., window locks, door hinges on the inside, two-inch dead bolts on doors, alarms, etc.).

6. **New Employee Hiring**
   
   An employer should take precautions to not hire a restricted new employee (for example, one contractually bound to not compete with your client’s big competitor), or at least create evidence that the employee was instructed to not infect the new employer with former employer trade secrets. The employment agreement should state that the new employer does not want any former employer’s trade secrets and require disclosure of any trade secret agreements the employee is bound by. Check references!

7. **Termination Procedures**
   
   The employer should review with the departing employee the employee’s signed confidentiality agreement and its restrictions on use and disclosure of the employer’s confidential information. Give the departing employee a copy of it. Proveably ask the employee to return all company materials.

C. **Not Using Confidentiality and Nondisclosure Agreements**

Most employment relationships are deemed confidential relationships insofar as protecting the employer’s hand, source code, chemical formulas, trade secrets are concerned. However, the scope of this duty is uncertain and it may not be blazingly clear to your clients’ employees, particularly concerning softer secrets such as business and marketing plans and information. Written confidentiality agreements meet several trade secret jury question elements by provably putting employees on notice of their duties and showing the trade secret owner’s exercise of reasonable precautions.

“Employee 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 Employee during the term of Employee’s relationship with Company are, without limitation, owned by Company either as works for hire or 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. Employee will sign any documents affirming the same for any particular item on request, during or after the relationship. Employee will not, except on Company business, use or disclose any Company Property without Company’s written consent during or after Employee’s relationship with Company. Employee 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 Employee’s relationship with Company ends, Employee will immediately deliver Company property and all documents and information concerning all Company proprietary information and all Company Property to Company.”

The above discussion also alludes to the usefulness of written nondisclosure agreements with third parties. The kinds and flavors of non-disclosure agreements with third parties are infinite.

D. Failure to Properly Record Security Interests

A trade secret is a general intangible interest governed by state law. A security interest in a trade secret is perfected with a UCC-1 recorded in the state where the debtor has its principal place of business.

E. Acquisition Due Diligence Issues

A comprehensive discussion of this topic is impossible in this paper. You may need to check: (1) Identify the Trade Secrets. (a) What do you not want competitors to know? (b) Has this been disclosed outside the company? (c) If an employee left the company, how could he hurt the company? (d) What is the company doing that is different than its competitors? (e) Talk to marketing, sales, research and development, computer programmers, MSI managers, plant managers and supervisors. (2) Review Documents. (a) financial statements and documents showing how the company makes its money; (b) company’s internal confidentiality and external nondisclosure agreements; (c) assignments and licenses (to and from); (c) exit interview procedures; (d) security program existence and comprehensiveness of actual implementation.

The following is a frightening but non-exhaustive list of possibly applicable items to help jog you into asking questions. (1) Who created, (2) who owns, and (3) how are each of the following items protected? technical information/research & development, proprietary technology, formulas/ compounds, prototypes, processes, laboratory notebooks, experiments, experimental data, calculations, drawings, diagrams, design data, design manuals, vendor/supplier information, R & R reports, maintenance, production and R & D know-how and negative know-how (i.e., what does not work), production/process information, cost/price data, production/processes, process/ manufacturing technology, quality control information, procedures, manuals, records, sales & marketing information, marketing procedures, forecasts/data, plans, sales call reports, competitive and intelligence information and counterintelligence, proprietary information concerning customers, proprietary customer lists, customer needs and buying habits, sales and marketing studies and reports, internal financial and management information, proprietary financial information/projections, internal financial documents, budgets, forecasts, computer printouts, product margins, product costs, operating reports, internal profit and loss statements, proprietary administrative information, internal organization, business plans, internal computer software.

VII. OTHER IP ISSUES

A. Misunderstanding Non-Competition Agreements

Patent attorneys are often called on to prepare or review non-competition agreements. Non-competition agreements with key employees can be useful but are subject to many restrictions. Tex. Bus. & Com. Code § 15.50(1); An employee’s covenant not to compete is not enforceable unless (1) the covenant is ancillary to or part of an otherwise enforceable agreement at the time the covenant is made, and (2) the covenant contains reasonable limitations as to time, geographic area and scope of activity to the restrained which do not impose a greater restraint than necessary to protect the interest of the promisee. If the employee is an at-will employee, something more than the promise of continued employment is necessary for the agreement to be enforceable, such as the promise of initial training, the promise of giving notice prior to ending employment, the employee’s promise to not use the employer’s trade secrets, etc. A covenant is not ancillary to the general agreement unless it is designed to enforce a contractual obligation of one of the parties. The test is whether the consideration given by the employer in the general agreement gives rise to the employer’s interest in restraining the employee from competing and whether the covenant not to compete is designed to enforce the employee’s return promise. Debbie Light v. Centel Cellular Co. of Texas, 883 S.W.2d 642 (Tex. 1994).
There must be something special about the employee such as that your client created his name recognition in the market, gave him specialized training, he knows your trade secrets, etc. Apelund & Eriksen, Employee Noncompetition Law § 6.03[2] (1987); See also, Dallas Cowboys Football Club, Inc. v. Harris, 348 S.W.2d 37 (Tex. Civ. App.--Dallas 1961 no writ). The restraint will only be enforced to the extent necessary to protect the employee’s investment. Failure to request reformation of an overly broad covenant voids it.

Instead of an absolute prohibition on competition, consider a post-employment requirement that the employee pay a percentage of revenues gained from the employee’s former customers for a time after leaving. This is more likely to be enforced and may dissuade a competitor from hiring him. Peat Marwick Main & Co. v. Hass, 818 S.W.2d 381 (Tex. 1991). (Although the Texas Supreme Court found the subject requirement that the departing partner accountant pay the firm a percentage of client revenues that he took to be an unenforceable restraint, the Court, in dicta, said that a narrowly drafted such provision may be enforceable.) John R. Ray & Sons, Inc. v. Stroman, 923 S.W.2d 80 (Tex.App.-Houston [14th Dist.], 1996) (Employee not entitled to stock to be paid pursuant to agreement because noncompetition clause in the agreement was unenforceable, i.e., a poison pill penalizing the employee from contesting the noncompetition clause.) Non-competition agreements are not enforceable in some states.

B. Failing to Check for Insurance Coverage

While it is not in the IP attorney’s bailiwick to personally check the client’s insurance policy when the litigation complaint is served on your client, your client will be a happy client if, due to your suggestion to check its insurance policy, it turns out that “advertising injury” or its equivalent covers the asserted cause of action. Intex Plastics Sales Co. v. United Nat’l Ins. Co., 18 U.S.P.Q.2d 1567 (C.D. Ca. 1990); Bradford Lyerla and Manuel Abascal, Insurance Coverage For Intellectual Property Claims: The California v. The New York Approach, 19 AIPLA Q.J. 189 (1991).

Comprehensive general liability (CGL) policies are typically sold on standard forms. The commonly used 1986 Insurance Service Office CGL form covers “misappropriation of advertising ideas or style of doing business.” Stonewall Insurance Co. v. Asbestos Claims Management Corp., 73 F.3d 1178 (2nd Cir. 1995) (applying Texas and New York law); Richard L. Antognini, What You Need to Know About Intellectual Property Coverage, 31 Tort & Insurance L.J. 895 (1996). In Doron Precision Systems, Inc. v. United States Fidelity & Guaranty Co., 963 P.2d 363 (Idaho 1998), the complaint alleged that the copyrighted computer programs and films were infringed by the defendant’s “copying of such material, placing the material on the market, by selling and giving away such material, and by showing and displaying such material.” The court held that display of the infringing materials was sufficiently related to advertising activities to require the insurer to defend. In Amway Distributor’s Benefits Association v. Federal Insurance Co., 990 F. Supp. 936 (W.D. Mich. 1997), the complaint alleged Amway distributed infringing videotapes through its down line distributors. The court held this was sufficiently related to advertising to be covered by insurance because “distributor Plaintiff’s pool of existing down liners, as well as potential down liners, are the target market for advertising which promotes Amway products.” Id. at 945-46. Practice Point. Because insurance policies are construed in favor of the insured have your client forward any IP complaint to all of the client’s insurance carriers.

C. Not Recognizing Your License Comprises A Franchise or Business Opportunity

Intellectual property attorneys are continually involved in licensing. Our clients license their patents, trademarks, copyrights, trade secrets, etc. Often, we are not aware that some of these licenses are statutorily defined as franchises and business opportunities.

Franchises and business opportunities are defined by federal law 16 C.F.R. § 436 and numerous state laws, most of which are different from each other. The practice of law concerning franchising and business opportunities is specialized, having its own organizations: American Bar Association Forum Committee on Franchising; Texas State Bar Association, Intellectual Property Law Section, Distribution and Franchise Law Committee. Numerous articles advise general attorneys and intellectual property law attorneys concerning which of their licenses comprise franchise and business opportunity agreements and what the consequences are. “The General Practitioner’s Guide To Franchising,” Mark H. Miller.

As a general proposition, if a license agreement puts the licensee into a new business, the new business is identified your client’s/licensor’s trademark, your licensor retains significant control or provides significant assistance to the licensee, and the licensee must pay at least $500 for the license, then your licensor is a “franchisor” under both federal and state law. Being a franchisor has numerous consequences, some of which can be horrific if the statutorily imposed duties are not complied with. Business opportunities are similar to franchises except that they lack the trademark requirement, often are limited to certain lines of commerce, and are often more rigorous about how much it takes to put the licensee into a new business to meet the definition.

What saves most intellectual property attorneys from the fact that they are unlawfully trafficking in unregistered franchises and business opportunities is that the attorney representing the licensee is equally unaware of the fact that the subject license comprises a franchise or a business opportunity. Since this is not a reliable
defense, any attorney who does licensing needs to at least develop issue recognition ability concerning these issues.

D. International Issues — It is Different
Failure to consider that the other country’s laws and requirements might be different can lead to problems. Provably telling the client that “I do not know enough about the law in XYZ country. You need another lawyer for that” is a useful malpractice avoidance step. Certain IP related issues repeatedly come up in foreign commerce: (1) failure to record a license locally; (2) trademark clearance; (3) trademark registration; (4) patent protection in that foreign country; (5) local laws regulating distribution relationships; and (6) compliance with EU or other similar directives dealing with using IP to restrict commerce. The other foreign IP issues discussed above are also relevant.

E. Acquisition Due Diligence Generally
Formally or informally, IP acquisition due diligence ends up with (1) a list of intangible assets, (2) a statement of who owns them and development history of where they came from, (3) status of the paperwork, i.e. registrations, assignments, security interests, maintenance, and agreements or licenses that affect the intangible assets, and (4) our rights versus third parties whether by infringement, agreement, license, litigation, unasserted infringement, possible remedial actions.

The general issues are (1) IP owned or used by company, (2) IP owned or used by others, and (3) agreements affecting IP. Formal IP assignments and licenses are easy to identify and are discussed above. Other agreements include: technology, development, settlement, mutual consent, franchise, royalty, marketing, distribution, sales rep, design, development, acquisition, manufacture, programming, marketing, consulting, employee agreements, duties to assign, maintain trade secrets, non-competes by officers, directors, employees, agents, vendors, customers. In non-IP agreements the attorney should look for IP provisions, representations, warranties, quality control, restrictions on use, marketing, geographic area, marking, advertising requirements, provisions surviving termination, docketing of termination dates, duty to assign or maintain trade secrets, non-competition. Agreements may restrict transfer, sale, exchange or other disposition of IP, particularly if the target company does not service. Encumbrances may affect security agreements, financing statements, title retention agreements, liens, security interests, etc.

Getting to these answers involves asking lots of questions. Who originated this? When? Who might claim to be the inventor, owner or author? Does anyone outside the company know this? Does anyone outside the company have any rights that doing this might infringe? Have we given or received any offers or assertions of intellectual property rights? What consultants have we used concerning these matters? Please show me the agreements by which we acquired these rights. Has any of this come from any government agency (which might have special requirements for retaining of rights)? Have all federal and state registrations been made, transfers recorded, etc. Are all post-registration requirements being met (such as payment of maintenance fees, filing affidavits of use)? Is our way of doing things, are our products, equipment, etc., different in function or appearance to those of others? The list of possible questions is, in the abstract, endless. In practice, the subject business makes the list finite.

Clearly, whether the target company’s primary value resides in its IP affects whether it is worth while to invest in any, little or extensive IP due diligence. If IP due diligence will be limited by economic considerations, the cautious attorney will note that fact in a letter to the client.

In some instances, the cost of effecting all of the IP transfers, getting them recorded, etc., can be substantial and should be allocated to the buyer or seller in the transaction documents. Thereafter, the acquiring company needs to review the acquired IP and docket maintenance payment dates, affidavit of use dates, renewal dates, etc., because the seller’s attorney will likely remove those dates from his or her docketing system.

F. IP and Bankruptcy
Your client or its IP transferor or transferee may end up in bankruptcy and subject to bankruptcy’s special IP statute 11 U.S.C. § 356(n). Determination of whether an agreement is executory or a completed sale is of paramount importance. Most licenses are held to be executory because each party still has some duties, the failure of which would comprise breach. Assignability is often a big issue. The safer course is to assume that licenses, will be held assignable by the trustee in spite of contrary language in the agreement (unlike personal service agreements, Headquarters Dodge, Inc. v. Leonard, 13 F.3d 674 (3rd Cir. 1994)). An exclusive license may be construed as a non-executory sale, but a non-exclusive license is typically construed as executory. In re Patient Education Media, 210 B.R. 237 (Bankr. S.D.N.Y. 1997). If the license is held to be severable the debtor may assume or reject individual agreements within the license with your client. Stewart Title Guarantee Co. v. Old Republic Ntn’l Title Ins. Co., 83 F.3d 735 (5th Cir. 1996). In contrast to other non-exclusive licenses, non-exclusive licenses in patents and copyrights are often held to be unassignable by the debtor. In re CFC, 89 F.3d 673 (9th Cir. 1996). In re Patient Education Media, Inc., supra. Your client may want to consider creating a security interest to secure performance of executory obligations, separating executory and non-executory considerations into separate agreements (so the bankrupt cannot keep your money and then not provide the long term license and support), including language that permits your client to quickly terminate - without long cure periods- before either party
takes bankruptcy and documenting the personal service and intellectual property attributes of the agreement.

If a debtor/licensor rejects an IP license the non-debtor/licensee may either accept the termination or elect to retain its IP license rights for the term of the license plus renewals, but must pay full royalties without set off and will receive no further support, benefits or updates (which may materially adversely affect the value of the IP license). If the debtor has any of your client’s confidential information consider offering to pay to have it immediately erased or protected.

VIII. CONCLUSION

It is not the intent of this paper to broadly state that any attorney who does any of the above-described acts or omissions has committed an unethical act or malpractice. There are always other circumstances to be taken into account. Typically, the client DOES NOT WANT to pay huge fees for the attorney to treat each phase of his or her work as something that the attorney may have to describe to a jury from the witness stand in the attorney’s own defense. This restrains the attorney from giving every issue in the client’s file the attorney’s undivided attention. Most attorneys function on a triage basis, giving their primary time and attention to the most critical matter today, delaying less critical matters until tomorrow. While understandable from the attorney’s point of view, the client is unlikely to have a charitable attitude if the client’s work is delayed until after the client’s deadline has passed.

This paper does not pretend to survey all possible intellectual property practice mistakes. There are numerous legal and factual exceptions to each of the “rules” discussed above. The author acknowledges making numerous sweeping statements which are only generally true and with which others may disagree. This is necessary to produce a reasonably concise list with short descriptions. Completeness and identification of all exceptions is omitted in favor of brevity. Once the issue has been raised above, each attorney must do what is necessary in his or her own judgment and circumstances to understand and resolve the matter.

It is a dangerous world out there in which we practice law. For attorneys who practice intellectual property law, either full time or just occasionally, being aware of the above list and discussing it with your co-workers may, hopefully, make it a little less dangerous for you.