

# INTELLECTUAL PROPERTY 101

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## I. THE CONCEPT OF INTELLECTUAL PROPERTY

Intellectual property (IP) is a legal concept which refers to creations of the mind for which exclusive rights are legally recognized. Under intellectual property law, owners are granted certain exclusive rights to a variety of intangible assets, such as musical, literary, and artistic works; discoveries and inventions; words, phrases, symbols, and designs; and information and ideas. Common types of intellectual property rights include copyright, patents, trademarks, industrial design rights, trade dress, and in some jurisdictions, trade secrets.

### A. Intellectual Property and Intellectual Property Rights – Historical Development

The protection of intellectual property goes back at least to the middle ages in Venice, Europe. Medieval technology in the various trades and arts was developed by guilds, which required the apprenticeship of years before an indentured apprentice would finally be admitted as a full member into the trade or guild and become the beneficiary of closely-held knowledge about the trade.<sup>1</sup> Motivated by political and religious interests, this knowledge (or intellectual property of the times) was controlled by such guilds. They became powerful through government-granted monopolistic rights that allowed them to control and regulate their trade, such as what could be imported, marketed, and produced and even the manner in which new technology, know-how, and procedures could be used within the trade.<sup>2</sup> The concentration of this knowledge and skill in a select few resulted in a system that stifled rather than fostered innovation and severely limited its benefit to society.

Two antique laws form the basis of current intellectual property law as we know it. The first is the British “Statute of Monopolies” (1623), which provided a limited monopoly of fourteen years of exclusivity to a “true and first inventor” of a patent.<sup>3</sup> The second is the British Statute of Anne (1710), considered the first copyright statute, which established copyright rights in authors of writings for a period of fourteen years.<sup>4</sup>

Intellectual property law in the United States developed initially in the thirteen colonies, each of which passed individual IP laws, leading to conflicting and unenforceability problems

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<sup>1</sup> *History and Sources of Intellectual Property Law*, NAT’L PARALEGAL COLL., [http://nationalparalegal.edu/public\\_documents/courseware\\_asp\\_files/patents/IntroIP/History.asp](http://nationalparalegal.edu/public_documents/courseware_asp_files/patents/IntroIP/History.asp) (last visited Jan. 28, 2014); Frank D. Prager, *History of Intellectual Property From 1545 to 1787*, 26(11) J. PATENT OFFICE SOC’Y 713 (1944).

<sup>2</sup> *See id.*

<sup>3</sup> *Statute of Monopolies 1623*, LEGISLATION.GOV.UK, <http://www.legislation.gov.uk/aep/Ja1/21/3/section/VI> (last visited Jan. 28, 2014).

<sup>4</sup> Karl-Erik Tallmo, *The History of Copyright: A Critical Overview with Source Texts in Five Languages*, <http://www.copyrighthistory.com/anne.html> (last visited Jan. 28, 2014) (a forthcoming book) (referencing and incorporating within what is known as the first copyright statute, The Statute of Anne, 1710 (1/6)).

outside each colony.<sup>5</sup> To remedy this, a system of centralized and federalized laws was therefore established in the U.S. Constitution by the founding fathers who in their wisdom recognized that taking care of this situation was important to the young country's progress. Fundamental to this had to have been the recognition that invention yields improvement, which begets more invention and results in progress for society, but only if that invention, improvement, and progress are available to others to spur their imagination, provide the seed for invention, and fuel competition. The authors of the Constitution, some of which were inventors in their own right, understood that a framework of laws was needed to protect those who would make the initial investment in research and development, critically needed for a new country to advance. The U.S. Constitution is the basis of legal protection of intellectual property in the U.S.

The Congress shall have the power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.<sup>6</sup>

As stated, the primary objective of U.S. intellectual property laws is to promote the progress of society. By making it possible for Congress to grant limited exclusive rights of patents and copyrights to discoverers of inventions and authors of creative works, the disclosure of such intellectual property to the general public was assured, mutually benefitting society and the patentee/copyright owner. The end goal was an incentive for inventors and authors to create and disclose their works, thereby building the country's IP and making the knowledge available for the public's benefit. Absence of such laws would be a deterrent to disclosure and sharing by developers who would be fearful that they would lose the commercial benefit of their creations if they could not exclude others from taking them.

This concern was addressed internationally almost a century later. In 1873, afraid their ideas would be stolen and exploited commercially in other countries, foreign exhibitors refused to attend the International Exhibition of Inventions in Vienna.<sup>7</sup> This signaled the need for international protection of intellectual property. In 1883, the Paris Convention for the Protection of Industrial Property (the Paris Convention) was born in a year in which important intellectual property came into existence: Johannes Brahms was composing his third Symphony, Robert Louis Stevenson was writing *Treasure Island*, and John and Emily Roebling were completing construction of New York's Brooklyn Bridge.<sup>8</sup> As the first international treaty on IP, the Paris Convention established categories of IP we still use today: inventions, trademarks, and industrial designs. Later in 1893, the convention merged with the Berne Convention for the Protection of Literary and Artistic Works (1886) (the Berne Convention), which protected works of authorship through copyrights, to form an international organization charged with the protection of these intangible assets, and thus, the term "intellectual property" gained further traction.<sup>9</sup> In 1967, this organization became the World Intellectual Property Organization (WIPO), located in Geneva, currently having an impressive 186 member states, a staff of over 1200 from 116 countries

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<sup>5</sup> See *supra* note 1.

<sup>6</sup> U.S. CONST. art. I, § 8, cl. 8 (providing for congressional power to promote science and arts).

<sup>7</sup> *WIPO – A Brief History*, WORLD INTELLECTUAL PROPERTY ORGANIZATION ("WIPO"), <http://www.wipo.int/about-wipo/en/history.html> (last visited Jan. 29, 2014).

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

around the world, and a mission and mandate to administer intellectual property matters recognized by the member States of the United Nations.

In the United States, the term “intellectual property” can be found as early as October 1845, in a Massachusetts Circuit Court ruling in the patent case *Davoll v. Brown*<sup>10</sup>, in which Justice Charles L. Woodbury wrote that “only in this way can we protect intellectual property, the labors of the mind, productions and interests are as much a man’s own. . .as the wheat he cultivates, or the flocks he rears.”<sup>11</sup> It was not until the establishment of WIPO in 1967, however, that the term “intellectual property” really began to be used in the United States, which at that time was not a party to the Berne Convention (the U.S. joined it in 1989), and it did not enter popular usage until passage of the Bayh-Dole Act in 1980 and after the American Patent Association changed its name to the American Intellectual Property Law Association.<sup>12</sup>

## **B. Financial and Economic Incentives for the Intellectual Property Rights**

If not protected, intellectual property has little to no value. IP’s value develops from the exclusive right to use it, or, its corollary, the right to exclude others from it. Exclusive rights granted under intellectual property laws allow creators of IP to benefit from their discoveries and creations. Non-creator-owners can similarly benefit if the IP is assigned to them expressly and under contract law. Intellectual property rights provide a financial incentive for the investment in creating intellectual property, and, in the case of patents, associated research and development costs.<sup>13</sup> In 2013, the U.S. Patent and Trademark Office claimed that the worth of intellectual property to the U.S. economy is more than \$5 trillion USD and creates employment for an estimated 18 million American people. The value of IP internationally is considered similarly high in other developed nations, such as those in the European Union.<sup>14</sup>

Economic research has shown a positive correlation between a strengthening IP system and economic growth.<sup>15</sup> Economists estimate that two-thirds of the value of corporate market values in the US can be traced to intangible assets.<sup>16</sup> While some may debate the amount of the value of intellectual property to economies, most can agree that in countries with developed or developing IP systems, revenues are generated from those systems, and furthermore, those systems most often than not result in an increase of intellectual capital, and competition is fostered.

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<sup>10</sup> *Davoll v. Brown*, 7 F.Cas. 197 (D. Mass. 1845).

<sup>11</sup> *Id.* at 199 (citing *Grant v. Raymond*, 31 U.S. 218, 219 (1832)).

<sup>12</sup> Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, at 4 n. 6 (Stanford Law Sch. John M. Olin Program in Law and Econ. Working Paper No. 291, 2004), [http://philo.at/wiki/images/Lemly\\_property\\_free\\_riding.pdf](http://philo.at/wiki/images/Lemly_property_free_riding.pdf) (last visited Jan. 29, 2014).

<sup>13</sup> Doris Schroeder & Peter Singer, *Prudential Reasons for IPR Reform*, A REPORT FOR INNOVA-P2 at 6 (Univ. of Melbourne 2009), [http://www.uclan.ac.uk/research/environment/projects/assets/cpe\\_innova\\_deliverable1\\_2.pdf](http://www.uclan.ac.uk/research/environment/projects/assets/cpe_innova_deliverable1_2.pdf) (last visited June 23, 2014).

<sup>14</sup> Thomas Bollyky, *Why Chemotherapy That Costs \$70,000 in the U.S. Costs \$2,500 in India*, THE ATLANTIC, (Apr. 10, 2013, 2:47 PM), <http://www.theatlantic.com/health/archive/2013/04/why-chemotherapy-that-costs-70-000-in-the-us-costs-2-500-in-india/274847/>.

<sup>15</sup> See *supra* note 13.

<sup>16</sup> Baruch Lev, *Remarks on the Measurement, Valuation, and Reporting of Intangible Assets*, 9 FED. RES. BANK OF N.Y. ECON. POL’Y REV. (2003), available at <http://www.newyorkfed.org/research/epr/03v09n3/0309levy.pdf>.

In summary, the important thing to remember about the content in the sections above is that intellectual property is different from and should not be confused in the mind with intellectual property *rights*. It is even more important to know that only through diligent, consistent, and thoughtful application of the intellectual property rights mechanisms afforded the IP owner by governments is the value of intellectual property ever realized by the owner. That is the subject of the remaining sections of this article.

## II. TYPES OF INTELLECTUAL PROPERTY

Intellectual property rights include patents, copyrights, industrial design rights/design patents, and rights in trademarks, service marks, trade dress, and, in some jurisdictions, trade secrets. There are other exclusive rights, such as circuit design rights protected by mask work rights, found in the copyright statute.<sup>17</sup> Each of these forms of intellectual property protects a distinct piece of intellectual property and is circumscribed by certain basic concepts: (1) the rights that are exclusively granted; (2) the substantive requirements for receiving that exclusivity; (3) the subject matter the exclusive rights cover; (4) the duration of rights or their term of exclusivity; and (5) the remedies for their violation.<sup>18</sup> Stemming from the U.S. Constitution, intellectual property laws are federal for patents and copyright rights. Trademark rights arise in both state and federal law, but trade secret laws are either state laws or arise under a state's common law. Outside the U.S., patent and copyright laws generally arise from treaties and conventions, such as the Paris Convention and Berne Convention. Trademark laws are generally code driven, and many countries do not have any laws protecting trade secrets at all, and if they do, they protect trade secrets under unfair competition statutes or some under treaty, such as NAFTA.

### A. Patents

Patents protect inventions, discoveries, and conceptions. How patents are granted, the formal requirements placed on the patent applicants, and the scope of patent grants vary widely between countries according to national laws and international agreements. Patents are jurisdictional, i.e., a U.S. patent addresses infringement only within the confines of the U.S. In most countries, the exclusive rights granted to a patentee are the rights to prevent others from making, using, or selling the patented invention without permission.<sup>19</sup>

#### 1. *Exclusive Rights under Patents*

In the U.S, a patent is a government-granted "limited" monopoly to the inventor to exclude others from making, using, offering for sale, or selling the patented invention within, or importing the patented invention into the U.S.<sup>20</sup> Whoever, without authority from the inventor, exercises any one of this set of exclusive rights, whether knowingly or unknowingly, infringes

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<sup>17</sup> 17 U.S.C. § 901 (West 2012).

<sup>18</sup> DONALD S. CHISUM & MICHAEL A. JACOBS, UNDERSTANDING INTELLECTUAL PROPERTY LAW, 1-3 (1992).

<sup>19</sup> *Patent Drafting Manual*, WORLD INTELLECTUAL PROPERTY ORGANIZATION ("WIPO") at 6 (2010), [http://www.wipo.int/export/sites/www/freepublications/en/patents/867/wipo\\_pub\\_867.pdf](http://www.wipo.int/export/sites/www/freepublications/en/patents/867/wipo_pub_867.pdf).

<sup>20</sup> 35 U.S.C. § 271(a) (West 2012).

the patent.<sup>21</sup> While knowledge of the infringement is not necessary, there are two other provisions of § 271 for which knowledge is an element.<sup>22</sup> Under § 271(b), anyone who actively induces infringement of a patent is liable.<sup>23</sup> Active inducement requires that there be some knowledge of the patent and intent to infringe.<sup>24</sup> Finally, someone is liable for contributory infringement of a patent when he or she offers to sell, sells, or imports a component of a patented invention, where such component constitutes “a material part of the invention,” if he or she knows that the component is especially made or adapted for such infringement, and the component does not have “substantial noninfringing use.”<sup>25</sup>

## 2. *Inventions Qualifying for Patent under the AIA*

In the U.S., historically, the person entitled to a patent has been the first to invent, however, the America Invents Act, the first major patent law reform since 1952, which was signed into law on September 16, 2011, with all provisions becoming effective on March 16, 2013, harmonized U.S. law with other countries’ laws by changing the first-to-invent patent system to a first-to-file system/first to disclose system.<sup>26</sup> Under the America Invents Act, for patent applications filed after March 16, 2013, a person is entitled to a patent for inventions that are not: (1) already patented, described in a printed publication, in public use, on sale or otherwise available to the public prior to the date of filing of the claimed invention; or (2) described in a patent or published patent application filed prior to the date of filing of the claimed invention, which patent or application names another as inventor.<sup>27</sup> The following exceptions to (1) and (2) above are *disclosures* within twelve months of the filing date of the claimed invention either: (a) by the inventor or someone else who obtained the subject matter from the inventor if it was made by the inventor, or (b) that were prior public disclosures of the inventor.<sup>28</sup>

## 3. *Subject Matter of Patentable Inventions*

In the U.S., the subject matter of a patentable invention can be: an apparatus (e.g., something with moving parts like a pair of scissors); an article of manufacture (e.g., something without moving parts like a screwdriver); a compound (e.g., a chemical composition); a process or a method (e.g., a series of steps as part of a method or process); and an improvement of the foregoing.<sup>29</sup> There are judicial exceptions to this patent-eligible subject matter: laws of nature, abstract ideas, natural phenomena, and mathematical algorithms and formulas are not entitled to patents.<sup>30</sup>

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<sup>21</sup> *Id.*

<sup>22</sup> *See, e.g.*, 35 U.S.C. § 271(b)-(c).

<sup>23</sup> 35 U.S.C. § 271(b).

<sup>24</sup> *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2068 (2011).

<sup>25</sup> 35 U.S.C. § 271(c).

<sup>26</sup> Leahy Smith America Invents Act of 2011, Pub. L. No. 112-29, 125 Stat. 284 (codified as amended in scattered sections of 35 U.S.C.).

<sup>27</sup> 35 U.S.C. § 102(a) (West 2012).

<sup>28</sup> *Id.* § 102(b)(1)(A)-(B), (b)(2)(A)-(B).

<sup>29</sup> 35 U.S.C. § 101 (West 2012).

<sup>30</sup> *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1293-94 (2012).

#### 4. *Requirements of a Patent*

An inventor is “[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof,” and he or she “may obtain a patent therefore, subject to the conditions and requirements of [title 35].”<sup>31</sup> As stated, among the most important requirements for a patent, are usefulness and newness, that is, the invention must be novel and not known before its invention.<sup>32</sup> The third requirement is that at the time of its discovery, the invention must be non-obvious to a person skilled in the art of the invention’s technology.<sup>33</sup> In jurisdictions outside of the U.S., the non-obviousness requirement is termed as a requirement that the invention involve an inventive step sufficient to merit the patent.<sup>34</sup>

Another requirement is that the inventor publicly disclose in the patent a description of the invention, in sufficient detail to enable others to practice the invention, and set out the best mode of practicing it, i.e., teach others to use it. This is done by way of a specification that contains a written description of the invention and the manner of making and using it, sufficiently clear such that a person skilled in the art will be enabled to practice the invention.<sup>35</sup> The specification concludes with one or more claims that define the metes and bounds of the invention, which must be narrowed and limited by existing prior art.<sup>36</sup> If the patent application goes beyond the novel and non-obvious into the prior art realm, it is the job of the patent examiner at the patent office to rein in the claimed disclosure within novel and non-obvious territory.<sup>37</sup>

#### 5. *Duration of Patent Term*

There are various kinds of patents with their own term or duration. Utility patents protect useful inventions for 20 years from filing.<sup>38</sup> Any patent office examination to narrow the claims eats into this term.<sup>39</sup> Design patents, discussed below, protect new, original, and strictly ornamental and non-functional aspects of a design for an article of manufacture for 15 years from grant.<sup>40</sup> Plant patents, which have a term of 20 years from filing, can issue for new, distinct, invented, or discovered asexually-reproduced varieties of plant, including cultivated sports, mutants, hybrids, and newly-found seedlings, other than a tuber-propagated plants.<sup>41</sup>

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<sup>31</sup> 35 U.S.C. § 101.

<sup>32</sup> *Id.* § 102(a) (evaluating an invention’s newness); *see discussion supra* Part II.A.2.

<sup>33</sup> 35 U.S.C. § 103(a) (West 2012).

<sup>34</sup> *See* EUROPEAN PATENT CONVENTION 1973, art. 56 (revised Dec. 13, 2007), <http://www.epo.org/law-practice/legal-texts/html/epc/1973/e/ar56.html>.

<sup>35</sup> 35 U.S.C. § 112(a) (West 2012).

<sup>36</sup> *Id.* § 112(b).

<sup>37</sup> Manual on Patent Examining Procedure, ch. 2171 (9th ed. Rev. 11, Mar. 2013), *available at* <http://www.uspto.gov/web/offices/pac/mpep/s2171.html>.

<sup>38</sup> 35 U.S.C. § 154(a)(2) (West 2012).

<sup>39</sup> *See id.* § 154(b).

<sup>40</sup> 35 U.S.C. § 173 (West 2012); *see infra* Part II.B.

<sup>41</sup> 35 U.S.C. § 161 (West 2012).

## 6. *Infringement of Patents and Remedies*

To exclude others from practicing the invention, the inventor or his or her assignee must obtain a patent in each country, or, practically and for economy's-sake, in a subset of countries whose markets are of interest to him or her.<sup>42</sup> Infringement of patents requires the patentee to prove that every element of a patent claim is infringed.<sup>43</sup>

Damages are by civil action filed in federal court.<sup>44</sup> Damages awarded shall be adequate to compensate for the infringement, but no less than a reasonable royalty for the use of the patented invention, plus interest and costs.<sup>45</sup> Infringement is actionable, whether the infringer has knowledge that the infringement is happening or not.<sup>46</sup> Willful, knowing infringement, however, can result in the award of triple damages.<sup>47</sup> Injunction to prevent the violation of patent is also available.<sup>48</sup> Alleged infringers can defend themselves by proving that they do not infringe or that the patent claim asserted is invalid because it did not meet the requirements of novelty and non-obviousness at the time it was invented. Another defense is that the patent is invalid due to the inventor not having been entitled to a patent because he/she committed misconduct in the prosecution of the patent in front of the patent office, for example, by omitting known prior art, which the inventor and his or her counsel are required to bring to the attention of the patent examiner.<sup>49</sup>

The acquisition of patents and patent infringement litigation are costly, highly-specialized, and resource-intensive activities, but a patentee can be rewarded by chilling his/her competitors' practice of the invention by receiving a patent and even as early as 18 months after filing the patent application. The patent application is published 18-months after the filing the patent application, if the patent applicant, at his discretion chooses to publish it.<sup>50</sup> A prevailing patentee-litigant can be well-compensated by being granted an injunction against an infringer's further infringement and/or a damages award in the form of royalties. However, failing to act to seek and obtain a patent in a timely manner or failing to adequately cover the invention in a well-written patent application meeting all the requirements of a patent, however, can mean a loss of rights to the inventor in favor of the public domain. Likewise, failure to act to assert patent rights and file a patent infringement action within six years of the commencement of infringement can result in a loss of the right to claim damages under the equitable doctrine of laches.<sup>51</sup>

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<sup>42</sup> See *supra* note 19 and accompanying text Part II.A.

<sup>43</sup> *Cross Med. Prods. v. Medtronic Sofamor Danek, Inc.*, 424 F.3d 1293, 1311-12 (Fed. Cir. 2005) ("To infringe an apparatus claim, the device must meet all of the structural limitations.").

<sup>44</sup> 35 U.S.C. § 281 (West 2012).

<sup>45</sup> 35 U.S.C. § 284 (West 2012).

<sup>46</sup> *Fla. Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 527 U.S. 627, 645 (1999) ("Actions predicated on direct patent infringement . . . do not require any showing of intent to infringe; instead, knowledge and intent are considered only with respect to damages.").

<sup>47</sup> 35 U.S.C. § 284.

<sup>48</sup> 35 U.S.C. § 283 (West 2012).

<sup>49</sup> 35 U.S.C. § 282 (West 2012).

<sup>50</sup> 35 U.S.C. §122(b)(1), (2)(B)(i) (West 2012).

<sup>51</sup> 35 U.S.C. § 286 (West 2012).



## B. Industrial Design Rights/Design Patents

An industrial design right is an intellectual property right arising under international law that protects the ornamental or aesthetic aspects of the design of an object that are not purely utilitarian. An industrial design consists of the creation of a three-dimensional shape, configuration, or surface of an article or two-dimensional patterns, lines, or color.<sup>52</sup>

In other countries, industrial designs are protectable as a separate category from patents. Industrial designs of manufactured objects, such as automobile parts, are frequently the recipients of foreign industrial design rights and protect the investment in their creation. Generally, designs must be new or original and be designs that are “considered to be dictated exclusively by the technical function of a product.”<sup>53</sup>

The term of protection for an industrial design is about five years, with a possible renewal of up to 15 years.<sup>54</sup> Registration of an industrial design grants the right to prevent unauthorized copying, including the right to prevent all unauthorized parties from making, selling, or importing any product into which the design is incorporated.<sup>55</sup> Industrial designs are also protectable under copyright law as sculptures. In some countries, the design may be protected by both industrial design registration and copyright rights, however, some countries do not permit both industrial design and copyright protection concurrently.<sup>56</sup> In some countries, an industrial design may also be protectable under unfair competition law.<sup>57</sup> There is an entire chapter, 35 U.S.C. § 38, dedicated to the filing in the U.S. of an international design application under treaty. In the U.S., however, industrial designs are protected by design patents, which protect new, original, and ornamental designs of an article of manufacture, but only its non-utilitarian and non-functional aspects.<sup>58</sup> The U.S. would permit protection of such a design under both a design patent and under copyright law.

## C. Copyright

Copyright is an important intellectual property right, especially in the “information world” of today because it protects expression or how something is expressed. All content on the Internet, all literary works, all music, movies, photography, and art is protected by copyright rights. It is the intellectual property right mechanism that protects most of our current and contemporary technologies. Copyright throughout the world is guided by treaty, The Berne Convention, which the U.S. joined on March 1, 1989.<sup>59</sup> The discussion below, therefore, will be

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<sup>52</sup> *WIPO – Industrial Designs*, WORLD INTELLECTUAL PROPERTY ORGANIZATION (“WIPO”), <http://www.wipo.int/designs/en/> (last visited Jan. 29, 2014).

<sup>53</sup> *WIPO – About Industrial Designs*, WORLD INTELLECTUAL PROPERTY ORGANIZATION (“WIPO”), [http://www.wipo.int/designs/en/about\\_id.html](http://www.wipo.int/designs/en/about_id.html) (last visited Jan. 29, 2014).

<sup>54</sup> *Id.*

<sup>55</sup> *Id.*

<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

<sup>58</sup> 35 U.S.C. § 171 (West 2012).

<sup>59</sup> *WIPO – The Berne Convention for the Protection of Literary and Artistic Works*, WORLD INTELLECTUAL PROPERTY ORGANIZATION (“WIPO”), [http://www.wipo.int/treaties/en/ip/berne/trtdocs\\_wo001.html](http://www.wipo.int/treaties/en/ip/berne/trtdocs_wo001.html) (last visited Jan. 29, 2014).

limited to U.S. law on the subject.

### **1. *The Requirements of Copyright Protection***

Copyright laws protect original works of authorship that are fixed in any tangible media.<sup>60</sup> The requirement of originality is that the work must be original to the author, i.e., that the purported author has not copied the work from another.<sup>61</sup> It follows from this that two authors who independently come up with the same writing, expressed in the same way, are each entitled to copyright rights in the same work.<sup>62</sup>

The phrase, “fixed in a tangible medium” means that the expression has been captured in a medium that is sufficiently permanent or stable such that the work can be “perceived, reproduced, or otherwise communicated for a period of more than transitory duration.”<sup>63</sup> Fixation can be best explained by example: a work written down and even broadcasted through the airwaves is considered “fixed in a tangible medium,” however the spoken, unrecorded word is not fixed in a tangible medium. The most important thing to know about fixation, though, is that copyright protection springs into existence at the moment of fixing the original work in a tangible medium – nothing else is necessary for copyright rights to exist – not even the ubiquitous copyright legend or copyright registration.<sup>64</sup>

### **2. *Subject Matter Eligible for Copyright Protection***

The subject matter of copyright can be any one of an array of intellectual properties, among them, literary works (including software source code); musical works (including accompanying words); dramatic works (including accompanying music); choreographic works; pictorial, graphic, and sculptural works (including portraits and photographs); audio visual works (including motion pictures); sound recordings; and architectural works.<sup>65</sup> Compilations, collections of existing works of authorship, such as a group of articles in a magazine, are also entitled to copyright protection, independently of the copyright in each of the articles.<sup>66</sup>

Copyright protects the expression of the work, and not the facts or ideas in the work.<sup>67</sup>

### **3. *Exclusive Rights under Copyright and Their Duration***

A bundle of exclusive copyright rights are granted to owners of copyright. Predictably, the first right is the copy right – the right to copy the work; to reproduce it. The second right is the

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<sup>60</sup> 17 U.S.C. § 102 (West 2012).

<sup>61</sup> Feist Publ'ns v. Rural Tel. Serv., 499 U.S. 340, 345 (1991).

<sup>62</sup> Peters v. West, 692 F.3d 632, 633 (7th Cir. 2012) (“independent creation is a defense to copyright infringement”).

<sup>63</sup> 17 U.S.C. § 101 (West 2012); Network LP v. CSC Holdings, Inc., 536 F.3d 121, 127 (2d Cir. 2008).

<sup>64</sup> Montgomery v. Noga, 168 F.3d 1282, 1288 (11th Cir. 1999).

<sup>65</sup> 17 U.S.C. § 102.

<sup>66</sup> 17 U.S.C. § 103 (West 2012).

<sup>67</sup> Feist Publ'ns v. Rural Tel. Serv., 499 U.S. 340 (1991) (holding that names, towns, and telephone numbers from white pages in a phone book were uncopyrightable facts; there was no creativity in an alphabetical listing of names; and the “sweat of the brow” in creating the listing is not protected under copyright).

right to prepare derivative works based upon the work, i.e., modifications or adaptations of the copyrighted work. The third exclusive right is the right to distribute copies of the copyrighted work to the public by sale, or other transfer of ownership, or by rental, lease, or lending. The fourth right is the right to publicly perform the copyrighted work that is a literary, musical, dramatic, or choreographic work or a pantomime, motion picture or other audiovisual work. The fifth right is the right to publicly display the work that is a literary, musical, dramatic, or choreographic work or a pantomime or a pictorial, graphic, or sculptural work, including individual images of an audiovisual work. The sixth right is for sound recordings. It is the right to perform the copyrighted work publicly by digital audio transmission.<sup>68</sup> These rights are called a bundle of rights because the author may assign or license one or more of these rights and retain other rights at his or her discretion.<sup>69</sup>

The duration of copyright in the US, for works of authorship created post January 1, 1978, is the whole life of the author plus seventy years from the author's death (for joint authors, it is the life of the last surviving author).<sup>70</sup> For "works made for hire," which are discussed below, the duration of copyright is the lesser of 95 years from publication or 120 years from creation.<sup>71</sup>

#### **4. *Works Made for Hire and Copyright Assignments***

Copyright rights are owned by the author except for works made for hire, which are owned by the author's employer.<sup>72</sup> A work made for hire is defined in the definitions section of the 17 U.S.C. as a work created by an employee within the scope of his or her employment, or one of several special types of commissioned works (a work specially ordered or commissioned for use as: a contribution to a collective work, a part of an audiovisual work, a translation, a supplementary work, a compilation, an instructional text, a test, answer material for a test, or an atlas, provided that the parties expressly agree in a written instrument that the work is considered a work made for hire).<sup>73</sup> As with patent rights, copyright rights can only be assigned by a written assignment.<sup>74</sup> A savvy employer will not merely rely on the definition of "work made for hire," but instead will employ a "belt and suspenders" approach to ensure the employer's ownership of works of authorship and copyrights therein. That is, the employer will recite in its employment agreement that all works of authorship created by its employees during the course of employment are "works made for hire" and will also include proper assignment language in the employment agreement as follows: "Employee hereby assigns to Employer all rights, title, and interest in and to all works of authorship that Employee creates while in the employ of Employer and in and to all copyrights in such works of authorship." Such language will ensure that the employer owns whatever works of authorship the employee creates, without fear that a court

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<sup>68</sup> 17 U.S.C. § 106 (West 2012).

<sup>69</sup> *Columbia Pictures Indus. v. Redd Horne, Inc.*, 749 F.2d 154, 158 (3d Cir. 1984) ("Since the rights granted by §106 are separate and distinct, and are severable from one another, the grant of one does not waive any of the other exclusive rights.").

<sup>70</sup> 17 U.S.C. § 302(a), (b) (West 2012).

<sup>71</sup> 17 U.S.C. § 302(c).

<sup>72</sup> *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989) (describing elements of what it takes to be within the scope of employment, making it a work made for hire).

<sup>73</sup> 17 U.S.C. § 101.

<sup>74</sup> 17 U.S.C. § 204(a) (West 2012).

may later rule that the employee's works of authorship are not within the definition of "works made for hire."

While assignments of copyright must be in writing, licensing is different. Only exclusive copyright licenses are required to be in writing. Non-exclusive copyright licenses may be oral and can therefore be implied. Implied license rights permit the exercise of certain rights under copyright law that arise from common usage and custom.<sup>75</sup>

## 5. *Copyright Notices and Registration*

The ubiquitous copyright notice is not required for copyright protection.<sup>76</sup> However, to avoid a defense of innocent infringement, it is a good idea to display the notice on visually-perceptible copies of the copyrighted work in locations on the work where a potential infringer will see it.<sup>77</sup> § 401(b) sets out the three elements of a proper copyright notice, an example of which is:

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1. In the U.S., the symbol © or the word "Copyright" or the abbreviation "Copyr." is the first element. Because not one of these is universally understood or accepted throughout the world, copyright owners whose works are on the Internet or sold internationally, would be advised to use both the © symbol, followed by the word "Copyright."
2. The second element is the date of first publication (for a work that will or has been published) or the date of first creation (for a work that is not and will not be published, such as source code or a writing describing a trade secret), followed by all publication or creation dates of derivative versions of the work, if any. In the example above, the first publication of the work was in 2008. It was then modified in 2009, 2010, and 2014.
3. Finally, the name of the owner of the copyright, is the third element of a proper copyright legend.<sup>78</sup>

These elements may be abbreviated if there are space limitations, such as on a photograph, a piece of jewelry, or an integrated circuit chip. In tight space, the above example might be presented as:

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<sup>75</sup> 3 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 10.03[A], at 10-36 (1989); *Effects Assocs., Inc. v. Cohen et al.*, 908 F.2d 555, 558-59 (1990) (holding that an implied license exists for a copyrighted work due to the plaintiff's conduct).

<sup>76</sup> 17 U.S.C. § 401 (West 2012) ("[A] notice of copyright as provided in this section *may* be placed on publicly distributed copies from which the work can be visually perceived.") (emphasis added).

<sup>77</sup> 17 U.S.C. § 401(d) ("If a notice of copyright . . . appears on the published copy . . . no weight shall be given to such a defendant's interposition of a defense based on innocent infringement in mitigation of actual or statutory damages.").

<sup>78</sup> 17 U.S.C. § 401(b).

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Copyright registrations are filed in the Copyright Office.<sup>79</sup> Registration is generally permissive.<sup>80</sup> § 408(a) of the United States Copyright Act states that “[a]t any time during the subsistence of the . . . term of copyright . . . , the owner of copyright or of any exclusive right in the work may obtain registration of the copyright claim . . . .” The filing of the proper Copyright Office form, a fee, and a deposit of a specimen of the copyrighted work are required for registration.<sup>81</sup> Registration, however, is a precondition to filing an action of copyright infringement.<sup>82</sup> Furthermore, significant benefits ensue from filing a copyright registration. First, a copyright registration can be recorded with the U.S. Customs and Border Protection Agency to keep pirated and counterfeit goods having copyright protection from being imported into the U.S.<sup>83</sup> Also, if registration is not made within three months after publication of the work or one month after the copyright owner learned of the infringement, the copyright owner will not be eligible to receive statutory damages or attorneys’ fees.<sup>84</sup>

## 6. *Remedies for Copyright Infringement—Damages*

Although criminal sanctions may apply in some cases, copyright enforcement is a civil matter.<sup>85</sup> Infringement requires proof of three elements: (1) ownership of a valid copyright; (2) factual copying of original elements of the copyrighted work by direct or circumstantial evidence; and (3) that the allegedly infringing work is “substantially similar” to the copyrighted work.<sup>86</sup> In the Fifth Circuit Court of Appeals, a side-by-side comparison should be made between the original and the copy to determine whether a layman would view the two works as substantially similar.<sup>87</sup> Similarity must be probative of copying.<sup>88</sup> In assessing similarity, it is important to consider whether the allegedly infringing author had access to the allegedly infringed work.<sup>89</sup> Once copying is established, an assessment should be made to determine whether the copying was substantial.<sup>90</sup> This involves looking at how much was copied and whether the copying was “qualitatively important” to the entirety of the copyrighted work.<sup>91</sup>

The remedies provided by the United States Copyright Act for proven copyright infringement include injunctions under 17 U.S.C. § 502, impounding of infringing copyrighted

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<sup>79</sup> 17 U.S.C. § 408(f) (West 2012).

<sup>80</sup> 17 U.S.C. § 408(a).

<sup>81</sup> 17 U.S.C. § 408(a).

<sup>82</sup> 17 U.S.C. § 411(a) (West 2012).

<sup>83</sup> 17 U.S.C. § 602(b) (West 2012); *see also* U.S. Customs and Border Protection, STOPFAKES.GOV, <http://www.stopfakes.gov/us-gov-agencies/cbp> (last visited Feb. 2, 2014).

<sup>84</sup> 17 U.S.C. § 412 (West 2012).

<sup>85</sup> 17 U.S.C. § 411(a).

<sup>86</sup> *Armour v. Knowles*, 512 F.3d 147, 152 (5th Cir. 2007).

<sup>87</sup> *Positive Black Talk Inc. v. Cash Money Records, Inc.*, 394 F.3d 357, 374 (5th Cir. 2004) (citing *Creations Unlimited, Inc. v. McCain*, 112 F.3d 814, 816 (5th Cir. 1997)).

<sup>88</sup> *Peters v. West*, 692 F.3d 629, 632-34 (7th Cir. 2012).

<sup>89</sup> *Id.* at 634 (“Similarity that is so close as to be highly unlikely to have been an accident of independent creation is evidence of access.”) (internal citations and quotation marks omitted).

<sup>90</sup> *R. Ready Prods., Inc. v. Cantrell*, 85 F. Supp. 2d 672, 683 (S.D. Tex. 2000).

<sup>91</sup> *Id.*

articles under 17 U.S.C. § 503, and either actual damages and profits under 17 U.S.C. § 504(b) or statutory damages under 17 U.S.C. § 504(c). An infringer of copyright is liable for (1) the copyright owner's actual damages and any additional profits from the infringer, as provided by subsection (b); or (2) statutory damages as provided by subsection (c).<sup>92</sup> To establish the profits, the copyright owner is only required to present proof of the infringer's gross revenue.<sup>93</sup> The infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.<sup>94</sup> As for statutory damages, the copyright owner may, instead of actual damages and profits, choose statutory damages in a sum of not less than \$750 or more than \$30,000 for each work infringed upon, as the court considers just.<sup>95</sup> If the court determines that the copyright infringement was willful, the court in its discretion may increase the award of statutory damages to a sum of not more than \$150,000, but instead, if the court finds that the infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than \$200.<sup>96</sup> In certain cases, the court may consider the infringer's belief that his or her use of the copyrighted work was a fair use under 17 U.S.C. § 107.<sup>97</sup>

## 7. *Fair Use of Copyrighted Works*

The grant of protection through copyright is a balancing act of what is fair and what is not. § 107 of the Digital Millennium Copyright Act acknowledges this by including a provision that permits copying of works that qualify as fair use within its provisions.<sup>98</sup> Fair use of another's exclusive right in a copyrighted work is assessed by evaluating four factors:

The first factor is "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational expenses."<sup>99</sup> Uses of a copyrighted work for purposes such as criticism, comment, news reporting, teaching, scholarship, or research cannot constitute copyright infringement.<sup>100</sup> This factor recognizes that a work transformative of the allegedly infringed work may be acceptable fair use. An example of a transformative work could be a work that is a parody of the work allegedly infringed. The rationale is that such a work could be considered a new work and, as such, enlarges the body of works of authorship for the benefit of society, whereas mere copying of the original work does not.<sup>101</sup>

The second factor considers "the nature of the copyrighted work," i.e., the value (in a

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<sup>92</sup> 17 U.S.C. § 504(a) (West 2012).

<sup>93</sup> 17 U.S.C. § 504(b).

<sup>94</sup> 17 U.S.C. § 504(b).

<sup>95</sup> 17 U.S.C. § 504(c)(1).

<sup>96</sup> 17 U.S.C. § 504(c)(2).

<sup>97</sup> 17 U.S.C. § 504(c)(2); *see, e.g.*, Digital Millennium Copyright Act, 17 U.S.C. § 107 (West 2012).

<sup>98</sup> *See* 17 U.S.C. § 107.

<sup>99</sup> 17 U.S.C. § 107(1).

<sup>100</sup> 17 U.S.C. § 107.

<sup>101</sup> *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578-79 (1994).

creative sense) of the work that was infringed.<sup>102</sup> This factor recognizes that facts and ideas are not protectable; only their expression is. This factor also considers that there are works that naturally have “thin” copyright protection.<sup>103</sup> An example could be a form document requesting “Print Name,” “Address,” “Phone Number,” etc. or an operations manual that states “turn valve handle 3 times, read dial, and verify that reading does not exceed 1000 degrees.”

The third evaluates the amount and substantiality of the portion [of the work] used in relation to the copyrighted work as a whole.”<sup>104</sup> *De minimis* copying is much more likely to be considered fair use as opposed to wholesale copying of a work unless, of course, the small amount copied is the most important part of the work infringed upon.<sup>105</sup>

The fourth factor is an inquiry into “the effect of the use upon the potential market for or value of the copyrighted work.”<sup>106</sup>

## **D. Trademarks, Service Marks, and Trade Dress**

Trademarks and service marks are recognizable words, designs, or expressions that identify and distinguish products or services to be of a particular source from those of others.<sup>107</sup> The purpose of trademark law is to assist consumers in identifying the source or origin of products or services and thereby intimate to the consumer the level of quality of a product.<sup>108</sup>

### **1. Subject Matter of Trademark Protection**

A trademark and a service mark can be a word, phrase, logo, sound, color, and even an odor that identifies or distinguishes goods or services from their manufacturer or vendor from those of other manufacturers or vendors and indicate the goods’ or services’ source in the marketplace, even if their source is unknown.<sup>109</sup> Similarly, trade dress generally refers to characteristics of the visual appearance of a product, its packaging, or even a building’s decor, including size, shape, color, graphics, and even sales techniques, indicating to a consumer that what is offered is from a single source.<sup>110</sup> The shape of a bottle of vodka; the shape, color, and arrangement of

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<sup>102</sup> 17 U.S.C. § 107(2).

<sup>103</sup> *Acuff-Rose Music, Inc.*, 510 U.S. at 586 (“This factor calls for recognition that some works are closer to the core of intended copyright protection than others.”).

<sup>104</sup> 17 U.S.C. § 107(3).

<sup>105</sup> See *Harper & Row, Publ’rs, Inc. v. Nation Enters.*, 471 U.S. 539, 565 (1985).

<sup>106</sup> 17 U.S.C. § 107(4); see also *Acuff-Rose Music, Inc.*, 510 U.S. at 590 (this factor requires courts to consider “whether unrestricted and widespread conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact on the potential market” for the original) (internal citations omitted).

<sup>107</sup> See Federal Trademark Act (the “Lanham Act”), 15 U.S.C. § 1127 (West 2012).

<sup>108</sup> See *Am. Steel Foundries v. Robertson*, 269 U.S. 372, 380 (1926). Even small children recognize the golden arches logo of McDonalds, and even the least perceptive of us recognize the level of quality associated with beverages marked with the Coca-Cola trademark as opposed to those that are the local supermarket’s generic brand of cola.

<sup>109</sup> 15 U.S.C. § 1127.

<sup>110</sup> *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 206 (2000) (“[T]he very purpose of attaching a

the materials in a line of shoes; and a brightly-colored festive building decor can each be protectable trade dress.<sup>111</sup> What is not protectable under either trademark or trade dress, however, are the functional aspects of the aforementioned bottle, shoes, and building.<sup>112</sup>

## 2. *Rights in Trademarks*

Under U.S. law, trademarks, service marks, and trade dress are legally protected and regulated by federal statute under the Lanham Act.<sup>113</sup> Trademark and trade dress rights protect consumers who might purchase a product under the mistaken belief that it is from a certain manufacturing vendor when, in reality, it is from a different vendor.<sup>114</sup> A trademark may be located on marketing materials, such as a sign, packaging, label, or voucher, or on the product itself.<sup>115</sup>

In the U.S., rights in marks are garnered under common law, though mere use of the mark in commerce (i.e., registration) is not required. “Common law rights arise from actual use of a mark and may allow the common law user to successfully challenge a registration or application.”<sup>116</sup>

*Lucent Information Management v. Lucent Technologies* sets out a four-part test to determine whether a mark has garnered common law protection in a market by measuring the market penetration of a trademark. The test considers (1) sales volume of the trademarked product; (2) growth trends in the geographic area; (3) the ratio of actual purchasers of the product as compared to the number of potential customers; and (4) the amount of product advertising in the area.<sup>117</sup>

## 3. *Protection of Trademarks and Their Registration*

Marks may best be protected by registering with the United States Patent and Trademark Office (USPTO). Generally speaking, a mark can be registered with the USPTO if the mark does not resemble an already-registered mark or a previously-used mark (under common law) if it is likely to create confusion in the marketplace with regard to the source of the goods or services.<sup>118</sup> Likelihood of confusion can arise when the same mark, or a or similarly sounding or looking mark, is used on the same or similar goods or services to those the trademark’s owner offers under their mark.

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particular word to a product, or encasing it in a distinctive package, is most often to identify the product’s source.”); see also *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 764 n.1 (1992).

<sup>111</sup> *Two Pesos, Inc.*, 505 U.S. at 765-66 (holding “trade dress [is] protected if it [is] either [ ] inherently distinctive or [ ] acquire[s] a secondary meaning . . .”).

<sup>112</sup> See *Kellogg Co. v. Nat’l Biscuit Co.*, 305 U.S. 111, 122 (1938) (denying trade dress protection for the pillow shape of Kellogg’s Shredded Wheat cereal because it was held to be functional).

<sup>113</sup> See 15 U.S.C. § 1127.

<sup>114</sup> See *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 672 (3d Cir. 1989).

<sup>115</sup> See 15 U.S.C. § 1127 (definition of the term “use in commerce”).

<sup>116</sup> The U.S. Patent and Trademark Office, *Frequently Asked Questions about Trademarks, What are “common law” rights?*, [http://www.uspto.gov/faq/trademarks.jsp#\\_Toc275426712](http://www.uspto.gov/faq/trademarks.jsp#_Toc275426712) (last visited Feb. 1, 2014).

<sup>117</sup> *Lucent Info. Mgmt, Inc. v. Lucent Techs., Inc.*, 186 F.3d 311, 317 (3d Cir. 1999) (internal citation omitted).

<sup>118</sup> 15 U.S.C. §§ 1052(d), 1053 (West 2012).



The first person to use a mark in a trademark sense—to identify to customers that he or she is the source of the goods or services—may apply for trademark or service mark registration.<sup>119</sup> To file for trademark or service mark registration, the owner must register the mark in an International Class as set out by The International Classification of Goods and Services for the Purposes of the Registration of Marks, which was established by treaty to classify goods and services for the purpose of trademark registration.<sup>120</sup> Use of the Nice Classification system is mandatory for the national registration of marks in countries that are a party to the Nice Agreement.<sup>121</sup>

Authentic English versions of the Nice Classification are published online by WIPO.<sup>122</sup> Under this classification system, service marks registered for services related to scientific equipment, including computer, computer hardware, and computer software are classified under International Class 42, and trademarks registered for software and electronic products are classified under International Class 9.

In the United States, the registration process requires the filing of an application online and takes six to twelve months to achieve registration, provided there are no applications on file for the same or similar marks or marks in use about which the trademark office is made aware.<sup>123</sup> The registration process may include the requirement that the mark's applicant disclaim unregistrable components of the mark, such as "Hamburgers" in the mark "ACME Hamburgers" to market the sale of hamburgers.<sup>124</sup> If, upon examination, the mark is deemed by the trademark examiner to be entitled to registration and all requirements are met, the mark will be published in the Official Gazette of the Patent and Trademark Office.<sup>125</sup> Anyone—presumably someone who becomes aware of the filing for registration, typically through a watch service notice, but perhaps just by monitoring the uspto.gov website for trademark applications filed—who believes he or she would be damaged by the registration of the published mark has thirty days from its date of publication to file an opposition to the registration of the mark.<sup>126</sup> If a mark is opposed, the mark owner's options are to fight the opposition and ultimately convince the trademark office of his or her priority over the challenger, or to withdraw the application.<sup>127</sup> Unless there is an opposition, however, the mark will be registered.<sup>128</sup> If the mark is registered, challenging the mark is more difficult, but can be done under the Lanham Act's cancellation procedure.<sup>129</sup> Registered marks can be challenged by the owner of a famous mark who believes

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<sup>119</sup> *George & Co. v. Imagination Entm't Ltd.*, 575 F.3d 383, 400 (4th Cir. 2009).

<sup>120</sup> The U.S. Patent and Trademark Office, *Nice Agreement Tenth Edition—General Remarks, Class Headings and Explanatory Notes-Version 2012*, <http://www.uspto.gov/trademarks/notices/international.jsp> (last visited Feb. 2, 2014).

<sup>121</sup> *WIPO – About the NCL*, WORLD INTELLECTUAL PROPERTY ORGANIZATION (“WIPO”), [http://www.wipo.int/classifications/nice/en/about\\_the\\_ncl/preface.html](http://www.wipo.int/classifications/nice/en/about_the_ncl/preface.html) (last visited Feb. 2, 2014).

<sup>122</sup> *See List of Goods and Services by Class Order*, WORLD INTELLECTUAL PROPERTY ORGANIZATION (“WIPO”), <http://web2.wipo.int/nicepub/edition-20140101/taxonomy/#> (last visited Feb. 2, 2014).

<sup>123</sup> 15 U.S.C. § 1051 (West 2012).

<sup>124</sup> 15 U.S.C. § 1056 (West 2012).

<sup>125</sup> 15 U.S.C. § 1062(a) (West 2012).

<sup>126</sup> 15 U.S.C. § 1063(a) (West 2012).

<sup>127</sup> 15 U.S.C. § 1063(a).

<sup>128</sup> 15 U.S.C. § 1063(b).

<sup>129</sup> 15 U.S.C. § 1064 (West 2012).

the mark creates a likelihood of dilution of his or her famous mark.<sup>130</sup> Registration can also be challenged on grounds that the mark has become generic for goods or services,<sup>131</sup> is functional,<sup>132</sup> has been abandoned, or because the registration was obtained fraudulently.<sup>133</sup> Registration of a mark or a trade dress constitutes constructive notice nation-wide of the owner's exclusive rights in the mark or trade dress.<sup>134</sup> The registered mark's owner has incontestable rights to the mark after five consecutive years of continuous use in commerce on goods or services.<sup>135</sup> In fact, the registration is conclusive evidence of the validity of the mark, the registration of the mark, the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce.<sup>136</sup>

In addition to rights under federal law for marks used in interstate commerce in the U.S., there are trademark rights under state law. In Texas the requirements for state trademark registration are in Chapter 16 of the Texas Business and Commerce Code<sup>137</sup> and title 1 chapter 93 of the Texas Administrative Code.<sup>138</sup>

There are also (a) international trademark rights in over 200 countries with individual national trademark laws; (b) rights under treaties to which the U.S. is a party, such as the Madrid Protocol, which yields an International Registration for a trademark; and (c) rights under agreements among countries, which permit the filing of a single trademark application for registration in all of those countries, such as the Community Trade Mark (CTM). The U.S. subscribes to the Madrid Protocol.<sup>139</sup> The CTM provides protection of the mark in all of the member states of the European Union.<sup>140</sup>

#### **4. Duration of Trademark Registrations**

A United States trademark registration remains valid as long as the mark is used in commerce, provided the required affidavits of use are filed and the required fees are paid. Specifically, United States registrations for trademarks are good for ten years, provided that the registrant files affidavits of continued use within the one-year period immediately preceding the expiration of six years following the date of registration or the date of the publication and within the one-year period immediately preceding the expiration of ten years following the date of registration, and each successive ten-year period following the date of registrations.<sup>141</sup> The

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<sup>130</sup> 15 U.S.C. § 1051; *see discussion infra* at Section II.D.5 for a description of famous marks.

<sup>131</sup> *See discussion infra* Section II.D.5.

<sup>132</sup> *See discussion supra* Section II.D.1.

<sup>133</sup> 15 U.S.C. § 1064(3).

<sup>134</sup> 15 U.S.C. § 1072 (West 2012).

<sup>135</sup> 15 U.S.C. § 1065 (West 2012).

<sup>136</sup> 15 U.S.C. § 1115(b) (West 2012).

<sup>137</sup> TEX. BUS. & COM. CODE §§ 16.001-16.107 (West 2012).

<sup>138</sup> *See* 1 TEX. ADMIN. CODE § 93 (West 2012); *see also*, Texas Secretary of State, *Trademarks and Service Marks*, <http://www.sos.state.tx.us/corp/tradepatents.shtml> (last visited Feb. 2, 2014).

<sup>139</sup> *See* 15 U.S.C. § 1141, 1141(a)–1141(n) (West 2012) (discussing Madrid Protocol provisions).

<sup>140</sup> *Fact Sheets—Types of Protection—Community Trade Mark*, INT'L TRADEMARK ASS'N, <http://www.inta.org/TrademarkBasics/FactSheets/Pages/CommunityTradeMarkFactSheet.aspx> (last visited Feb. 2, 2014).

<sup>141</sup> 15 U.S.C. § 1058(a)(1)–(2) (West 2012).

Community Trademark in Europe also has an initial registration period of ten years from the date of filing the CTM application.<sup>142</sup>

## 5. *Strength of Trademarks*

When we discuss selecting a trademark or service mark, we should consider the strength of the mark we select. Marks are graded by their strengths: Famous, Coined, Arbitrary, Suggestive, Descriptive, and Generic. Examples of the strongest, most famous marks are “McDonalds” and “Coca-Cola.” Owners of such marks are able to keep others from diluting their mark.<sup>143</sup> Dilution is a trademark concept that gives owners of famous marks standing to forbid others from using a mark similar to their famous mark on goods or services in a way that would lessen the famous mark’s distinctiveness, regardless of whether such goods or services (1) are not the same as the mark’s owner’s goods or services, or (2) do not compete with and have little connection with, those of the trademark owner.<sup>144</sup> For example, in *Quality Inns International, Inc. v. McDonald’s Corp.*, McDonald’s was able to block the use of the mark “McSleep” for hotel services by convincing the court that its mark was famous.<sup>145</sup>

Coined marks are the next strongest. Coined marks are words that have no dictionary meaning, such as “Exxon” or “Kodak.”<sup>146</sup> Companies spend a lot of money trying to come up with coined trademarks because they are considered so strong. The next category of trademarks are arbitrary marks, which are words used as marks out of context, for example, “Apple” for computers or musical recordings and “Camel” for cigarettes.<sup>147</sup> The next strength category is suggestive. Suggestive marks suggest the product or its qualities, such as “Coppertone” for sunscreen.<sup>148</sup> Descriptive is the next category. Descriptive marks are the weakest marks and describe the product or identify a characteristic of the product.<sup>149</sup> An example might be the use of the word “Hamburger” in commerce as a mark to sell hamburgers. It is unlikely that any trademark office would allow the word “Hamburger” to be taken out of the lexicon of common usage in favor of the exclusive use of a single owner. As such, descriptive marks have no strength until they survive a lengthy period of existence in the marketplace and achieve what is called “secondary meaning” apart from the goods/services described.<sup>150</sup> An example of a mark that has achieved secondary meaning is “Holiday Inn” for hotel services. Generic is the last category, and marks in this category have no strength. Generic marks are marks that have fallen into the public domain, such as “formica” or “nylon,” words which were once trademarks, but lost their

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<sup>142</sup> See *supra* note 140, INT’L TRADEMARK ASS’N, *Community Trade Mark*.

<sup>143</sup> 15 U.S.C. § 1125(c)(2)(B) (West 2012).

<sup>144</sup> 15 U.S.C. § 1125(c)(2)(B).

<sup>145</sup> 695 F. Supp. 198, 221 (D. Md. 1988).

<sup>146</sup> *Tumblebus Inc. v. Cranmer*, 399 F.3d 754, 761, n. 7 (6th Cir. 2005).

<sup>147</sup> *Id.* at 761 n. 6 (citing *Champions Golf Club, Inc. v. The Champions Golf Club, Inc.*, 78 F.3d 1111, 1117 (6th Cir. 1996)).

<sup>148</sup> *Id.* at 761 n. 5 (citing *Induct-O-Matic Corp. v. Inductotherm Corp.*, 747 F.2d 358, 362 (6th Cir. 1984)).

<sup>149</sup> *Id.* at 761 n. 8 (citing *Nartron Corp. v. STMicroelectronics, Inc.*, 305 F.3d 397, 404 n. 7 (6th Cir. 2002), *cert. denied*, 538 U.S. 907 (2003)).

<sup>150</sup> *Id.* at 761 n. 8 (citing *Abercrombie & Fitch Stores, Inc. v. Am. Eagle Outfitters, Inc.*, 280 F.3d 619, 640 n. 14 (6th Cir. 2002)).

protection due to their owners' failure to maintain such marks' strengths.<sup>151</sup>

A trademark owner must strive to protect his or her marks in order to maintain their value. Among the most important things a trademark owner can do to maintain a mark's strength are: (1) consistently police the mark and require that infringers cease and desist uses of the mark itself or marks that are similar-sounding or looking; (2) use the mark properly, i.e., in a trademark sense; and (3) provide notice of registration to consumers and others who would infringe the mark. Policing the mark to become aware of another's use of it or similar marks on similar goods or services is imperative because, as mentioned above, mere use of a mark garners rights in it under the common law.<sup>152</sup> Under the equitable defense of "laches," failure to act against an infringer will erode the owner's right to use the mark exclusively.<sup>153</sup> The following explanation, with cites to Texas and Fifth Circuit cases, is instructional and informative.

"Laches" is defined as an inexcusable delay that results in prejudice to a defendant.<sup>154</sup> The claim can be raised as an equitable defense available for those alleged infringers who lack the requisite "bad faith intent to capitalize on the markholder's [goodwill]."<sup>155</sup> Thus, to establish a "laches" defense, the defendant has the burden to show: "(1) [plaintiff's] delay in asserting one's trademark rights; (2) [plaintiff's] lack of excuse for the delay, and (3) undue prejudice to the alleged infringer caused by the delay."<sup>156</sup> In so analyzing the defense, courts in the Fifth Circuit take a "totality of the circumstances" approach by making factual inquiries regarding "the combined effect of the [p]laintiff's delay and the prejudice resulting to the [d]efendant[ ]."<sup>157</sup> "Factual insufficiencies in any one of the three prongs will prove fatal to the defendant's assertion of the affirmative defense."<sup>158</sup>

Policing requires the owner to initiate efforts to become aware of others' uses of its marks and then acting on that knowledge. Efforts should include: (a) looking out for uses of the mark online, in magazines, or in other sources of content; (b) sending cease and desist letters to have the infringer get off the mark; (c) contracting a watch service to report whenever a third party attempts to file for registration of the mark itself or a similar looking or sounding mark; and (d) filing an opposition, notice, or cancellation action against the attempted registration in the

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<sup>151</sup> See *supra* note 140, *Community Trade Mark*, INT'L TRADEMARK ASS'N; see also *Fact Sheets—Protecting a Trademark—Loss of Trademark Rights*, INT'L TRADEMARK ASS'N, <http://www.inta.org/TrademarkBasics/FactSheets/Pages/LossofTrademarkRightsFactSheet.aspx> (last visited February 2, 2014).

<sup>152</sup> See discussion *supra* at Section II.D.2.

<sup>153</sup> Tom Jacks & John Sokatch, *Good Things Do Not Always Come to Those Who Wait: The Use of the Laches Defense in 5<sup>th</sup> Circuit Trademark Litigation*, The Intellectual Property Business Blog by Chalker Flores, LLP (April 16, 2013), <http://chalkerflores.wordpress.com/2013/04/16/the-use-of-the-laches-defense-in-5th-circuit-trademark-litigation-2/>.

<sup>154</sup> *Id.* (citing *Abraham v. Alpha Chi Omega*, 796 F. Supp. 2d 837, 845 (N.D. Tex. 2011)).

<sup>155</sup> *Id.* (citing *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 490 (5th Cir. 2008)).

<sup>156</sup> *Id.* (citing *Smack Apparel Co.*, 550 F.3d at 489–90).

<sup>157</sup> *Id.* (citing *New Century Fin., Inc. v. New Century Fin. Corp.*, No. C-04-437, 2005 WL 2453204, at \*33 (S.D. Tex. Oct. 4, 2005)).

<sup>158</sup> *Id.*

trademark office (provided the filer is certain he or she has prior rights).<sup>159</sup>

Using the mark properly requires that the trademark owner him or herself use (and police the use of) the mark as an adjective rather than as a noun, e.g., “Kleenex tissues,” rather than “a Kleenex.”<sup>160</sup> Also, proper use means giving notice of ownership and registration through a “trademark attribution statement” in close proximity to the appearance of the mark.<sup>161</sup> A trademark attribution statement reads as follows:

Acme and the Acme logo are trademarks owned by Acme Company, Inc. and are registered in the U.S. Patent and Trademark Office and may be registered in other countries.

Giving notice of registration or intended registration can also be accomplished by using the symbol ® with marks that have achieved registration in the jurisdiction in which they are being used or the symbol ™ (in the U.S. only) for marks in which common law rights are asserted (i.e., those that have not been registered) or those for which trademark registration is pending.<sup>162</sup> Very best practices would have the ® (or ™) symbol used on each and every appearance of a mark in text, but best practices and practicality would have such symbols appear next to the mark when it appears in the title of a document and only in the first appearance of the mark within the text of the document.<sup>163</sup>

Failure to give such notice of registration (either through symbols or trademark attribution statement) will result in no profits or damages recovery for the plaintiff of a trademark infringement suit.<sup>164</sup>

## 6. *Trademark Infringement and Remedies*

Trademark infringement occurs by the non-registrant (1) using in commerce the registered mark in connection with the sale, offering for sale, distribution, or advertising of goods or services when such use is likely to cause confusion, mistake, or deception; or (2) applying a reproduction, copy, or counterfeit of the registered mark onto labels, signs, packaging, or advertisements intended to be used in commerce in connection with the sale, offering for sale, distribution, or advertising of goods or services in a way likely to cause confusion, mistake, or deception.<sup>165</sup>

To ensure that another’s trademark is not infringed upon, the selection of a new, desired

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<sup>159</sup> *Fact Sheets—Protecting a Trademark—Loss of Trademark Rights*, INT’L TRADEMARK ASS’N, <http://www.inta.org/TrademarkBasics/FactSheets/Pages/LossofTrademarkRightsFactSheet.aspx>. (last visited Feb. 2, 2014).

<sup>160</sup> *Id.*

<sup>161</sup> 15 U.S.C. § 1111 (West 2012).

<sup>162</sup> 15 U.S.C. § 1111.

<sup>163</sup> *A Guide to Proper Trademark Use*, INT’L TRADEMARK ASS’N, [http://www.inta.org/Media/Documents/2012\\_TMUseMediaInternetPublishing.pdf](http://www.inta.org/Media/Documents/2012_TMUseMediaInternetPublishing.pdf) (last visited Feb. 2, 2014).

<sup>164</sup> 15 U.S.C. § 1111.

<sup>165</sup> 15 U.S.C. § 1114(1) (West 2012).

mark requires that a trademark search be performed to discover whether the mark is available. Trademark searches are performed by vendors that provide such services and should be analyzed by experienced trademark attorneys who can properly advise and render written opinions as to the availability of a new mark. These searches would best be performed prior to an investment in marketing collateral, literature, signs, packaging, and websites displaying the mark.

In the United States, the registered trademark owner's incontestable rights can be enforced by way of an action for trademark infringement.<sup>166</sup> Unregistered trademark rights may be enforced pursuant to the common law tort of passing off. Generally speaking, a mark's owner can exclude others from using the owner's mark on goods or services that create actual confusion or a likelihood of confusion in the marketplace as to the source of the goods or services.<sup>167</sup> The factors considered in establishing a likelihood of confusion are: (1) the strength of the mark that was registered first; (2) relatedness of the goods and services; (3) the similarity of the marks; (4) evidence of actual confusion; (5) marketing channels used; (6) likely degree of purchaser care; (7) the intent of the defendant in selecting the mark; and (8) likelihood of expansion of the product lines.<sup>168</sup>

For a successful trademark infringement action, the plaintiff is entitled to the defendant's profits, any damages sustained by the plaintiff, and the costs of the action, as determined by the court.<sup>169</sup> For successful actions involving counterfeit marks, the court may award the greater of the amount of profits or the amount of damages.<sup>170</sup> In such cases, the plaintiff may opt for statutory damages instead of actual damages and profits in the amount of not less than \$1000 or more than \$200,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed.<sup>171</sup> If the court finds that use of the counterfeit mark was willful, the court can award not more than \$2,000,000 per counterfeit mark per type of goods or services sold, offered for sale or distributed.<sup>172</sup> Violations involving the use of a counterfeit mark in connection with the sale, offering for sale, or distribution of goods or services are also eligible upon *ex parte* application for an order providing for the seizure of goods and counterfeit marks, the means of making such marks, and the records related to the violation.<sup>173</sup> Such seizures involve armed federal marshals who perform raids of warehouses and other storage locations to seize such items.<sup>174</sup>

## E. Trade Secrets

Unlike copyright and patents, there is no registration scheme for the protection of trade secrets. Trade secrets are not publicly available, and there are no government-granted exclusive

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<sup>166</sup> 15 U.S.C. § 1114.

<sup>167</sup> 15 U.S.C. § 1114(1)(a).

<sup>168</sup> *Leelanau Wine Cellars, Ltd. v. Black & Red, Inc.*, 502 F.3d 504, 515 (6th Cir. 2007).

<sup>169</sup> 15 U.S.C. § 1117(a) (West 2012).

<sup>170</sup> 15 U.S.C. § 1117(b).

<sup>171</sup> 15 U.S.C. § 1117(c).

<sup>172</sup> 15 U.S.C. § 1117(d).

<sup>173</sup> 15 U.S.C. § 1116(d) (West 2012).

<sup>174</sup> *See* 15 U.S.C. § 1116(d) (providing that the court may grant an order for the seizure of goods and counterfeit marks involved).

rights for trade secrets. Anyone can independently create the same trade secret information and benefit from it. Information and ideas that are not otherwise protectable by copyrights or patents, are protected by trade secret laws.

### 1. *Trade Secret Protection in the U.S. and EU*

In the United States, trade secrets are protected by state law, the common law, and federal law. All states, except for New York, Massachusetts, and North Carolina have enacted a version of the Uniform Trade Secrets Act (“UTSA”), making it the main statute under which trade secrets are protected.<sup>175</sup> Massachusetts, however, has introduced the UTSA in the form of House Bill 27.<sup>176</sup> New York relies on its common law for trade secret protection.<sup>177</sup> North Carolina has enacted a modified version of the UTSA with many of its key principles.<sup>178</sup> Texas enacted its version of the Uniform Trade Secret Act effective September 1, 2013.<sup>179</sup> Texas has a criminal statute as well.<sup>180</sup> The U.S. also has a federal law to protect trade secrets, the Economic Espionage Act of 1996, found at 18 U.S.C. §§ 1831–1839.

Many countries, including, remarkably, most countries in Europe, do not have specific trade secrets laws. In such jurisdictions, trade secret owners must rely on protection under unfair competition laws and tort laws, file actions under breach of contract actions, and deal with a patchwork of fragmented laws found in labor, industrial property, and criminal codes.<sup>181</sup>

This study recommends that the EU Commission establish an initiative around trade secrets because it would foster economic growth, competitiveness, and innovation in the EU single market.<sup>182</sup> Among other things, such an initiative will, in the future, provide a uniform trade secret definition.<sup>183</sup>

### 2. *Definition of “Trade Secret”*

Trade secrets have been described as the “most intangible among intangible assets.”<sup>184</sup> One classic trade secret is the Coca-Cola formula and the recipe for which is highly valuable. In the United States, there are various definitions of what is a trade secret. The states whose trade secret law is guided by the common law, which until September 1 of 2013 included Texas, rely on the definition in the Restatement First of Torts Section 757. There, a trade secret is defined as “any

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<sup>175</sup> See *Trade Secrets Act*, UNIFORM LAW COMM’N, <http://www.uniformlaws.org/Act.aspx?title=Trade%20Secrets%20Act> (last visited Feb. 2, 2014).

<sup>176</sup> *Id.*

<sup>177</sup> See Michael J. Hutter, *The Case for Adoption of a Uniform Trade Secrets Act in New York*, 10 ALB. L.J. SCI. & TECH. 1, 6 (1999).

<sup>178</sup> Richard Stim, *North Carolina Trade Secret Law*, NOLO LAW FOR ALL, <http://www.nolo.com/legal-encyclopedia/north-carolina-trade-secret-law.html> (last visited Feb. 2, 2014); see also N.C. GEN. STAT. §§ 66-152.

<sup>179</sup> Texas Uniform Trade Secrets Act § 134A (2013).

<sup>180</sup> TEX. PENAL CODE § 31.05 (West 2013).

<sup>181</sup> *Study on Trade Secrets and Confidential Business Information in the Internal Market*, EUROPEAN COMM’N, at 151 (April 2013), [http://ec.europa.eu/internal\\_market/iprenforcement/docs/trade-secrets/130711\\_final-study\\_en.pdf](http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/130711_final-study_en.pdf).

<sup>182</sup> *Id.* at 151.

<sup>183</sup> *Id.* at 154.

<sup>184</sup> *Id.* at 1.

formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."<sup>185</sup>

Under the Texas UTSA, a trade secret is defined as:

information, including a formula, pattern, compilation, program, device, method, technique, process, financial data, or list of actual or potential customers or suppliers, that:

derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>186</sup>

The Economic Espionage Act has its own definition:

"trade secret" means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.<sup>187</sup>

In summary, information can be protected as a trade secret if it is not public, it derives its value from not being generally known, and as long as it is maintained as secret by its owner.<sup>188</sup> Aside from statutory mandates, trade secret doctrine has developed from two well-established principles: (1) a property interest in secret information; and (2) a duty to respect the confidentiality of trade secrets. In short, if a party regards information they are sharing as confidential, its treatment by a recipient should be that which the recipient would give its own information of a similar nature.

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<sup>185</sup> RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

<sup>186</sup> Texas Uniform Trade Secrets Act § 134A.002(6).

<sup>187</sup> Economic Espionage Act of 1996, 18 U.S.C. § 1839(3) (West 2012).

<sup>188</sup> See Texas Uniform Trade Secrets Act § 134.002(6); see also 18 U.S.C. § 1839(3).



### 3. *Protection of Trade Secrets*

As can be seen above in the definitions of trade secret in the UTSA and the EEA, the way the owner protects the trade secret from being known is very important. In determining whether to accord information status and protection as a trade secret, courts will look at the steps a trade secret owner has taken to protect the alleged trade secret.<sup>189</sup> If the owner is lax in how he or she keeps the information out of the public domain, judges are more likely to be receptive to a challenge of its trade secret status.<sup>190</sup> The best way to protect a trade secret is not to disclose it, but that is not always possible; sometimes information must be shared in conducting business.<sup>191</sup> The next best way to protect a trade secret is to use confidentiality agreements and limit access to the information to those who have a need to know.<sup>192</sup> The following are some of the best practices to follow to successfully protect trade secrets and confidential or proprietary information:

1. Make employees and third parties sign confidentiality agreements before having access to the information;
2. Disclose the information internally or externally solely on a need to know basis;
3. Mark information as confidential or trade secret and proprietary; and
4. Safeguard the tangible embodiments of the information in a secure, restricted-access environment. If the trade secret is in physical form, keep it under lock and key. If it is in electronic form, keep it in a password protected/segregated computer system.<sup>193</sup>

### 4. *Duration of Trade Secret Protection*

A trade secret is protected as long as it is maintained as a trade secret. Once public, a trade secret is no longer a trade secret.<sup>194</sup> In fact, it becomes part of the public domain, available to be used by anyone.<sup>195</sup> The result is that the former trade secret will no longer provide a competitive advantage to its owner because everyone else can use it to their benefit.<sup>196</sup>

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<sup>189</sup> Global Water Grp., Inc. v. Atchkey, 244 S.W.3d 924, 928 (Tex. App.—Dallas 2008, pet. denied).

<sup>190</sup> *Id.*

<sup>191</sup> See *supra* note 181, *Study on Trade Secrets and Confidential Business Information in the Internal Market*, EUROPEAN COMM'N.

<sup>192</sup> *Id.*

<sup>193</sup> *Id.*

<sup>194</sup> Texas Uniform Trade Secrets Act § 134A.002(6).

<sup>195</sup> § 134A.002(6).

<sup>196</sup> § 134A.002(6).

## 5. *Trade Secret Misappropriation*

Trade secrets are not infringed, but rather misappropriated.<sup>197</sup> Misappropriation amounts to theft.<sup>198</sup> The Texas Uniform Trade Secrets Act defines “Misappropriation” as:

- (A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- (B) disclosure or use of a trade secret of another without express or implied consent by a person who:
  - (i) used improper means to acquire knowledge of the trade secret;
  - (ii) at the time of disclosure or use, knew or had reason to know that the person’s knowledge of the trade secret was:
    - (a) derived from or through a person who had utilized improper means to acquire it;
    - (b) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
    - (c) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
  - (iii) before a material change of the person’s position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.<sup>199</sup>

““Improper means”” includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, to limit use, or to prohibit discovery of a trade secret, or espionage through electronic or other means.”<sup>200</sup>

In addition to injunctive relief for actual or threatened misappropriation, an injunction may condition future use of the trade secret upon the payment of a reasonable royalty to its owner.<sup>201</sup> A successful plaintiff may also recover damages for the actual loss caused by the misappropriation and the unjust enrichment that has not been taken into account in the actual loss calculation.<sup>202</sup> In lieu of damages measured by other means, the damages may be in the

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<sup>197</sup> § 134A.002(3)(A).

<sup>198</sup> § 134A.002(3).

<sup>199</sup> § 134A.002(3).

<sup>200</sup> Texas Uniform Trade Secrets Act § 134A.002(2).

<sup>201</sup> § 134A.003(a)–(b).

<sup>202</sup> § 134A.004(a).

form of liability for a reasonable royalty.<sup>203</sup> A finding of willful and malicious misappropriation allows damages of up to twice any award of actual loss caused by the misappropriation, unjust enrichment, or reasonable royalties under Subsection (a).<sup>204</sup> The prevailing party may be awarded reasonable attorneys' fees if the claim of misappropriation was made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or willful or malicious misappropriation is proven.<sup>205</sup>

Courts also enforce trade secret laws through criminal proceedings. Texas also allows for criminal penalties for theft of trade secret, which is considered a third-degree felony under Texas Penal Code Section 31.05(a)(4).

## **6. *Non-Uniform Language in the Texas UTSA***

There are a few differences between the language of the Texas UTSA and the uniform language of the UTSA. First, Texas UTSA's definition of "trade secret" includes "financial data" and a "list of actual or potential customers or suppliers," neither of which exist in the UTSA.<sup>206</sup> Also, there are two additional definitions. One is for "proper means," which is defined as "discovery by independent development, reverse engineering unless prohibited, or any other means that is not improper."<sup>207</sup> "Reverse engineering" is the other new definition in the Texas version. It means "the process of studying, analyzing, or disassembling a product or device to discover its design, structure, construction, or source code provided that the product or device was acquired lawfully or from a person having a legal right to convey it."<sup>208</sup> Finally, there is a presumption in favor of granting protective orders to preserve the secrecy of alleged trade secrets in litigation.<sup>209</sup>

## **7. *Economic Espionage Act of 1996 (EEA)***

The EEA is the federal act providing criminal penalties for misappropriating the trade secrets or competitive information of U.S. companies.<sup>210</sup> The EEA was enacted in October of 1996 to address the problem that there was no federal statute that prosecutors could use to prosecute economic espionage in a systematic manner other than the 1930's Interstate Transportation of Stolen Property Act, 18 U.S.C. § 2314.<sup>211</sup>

The Uniform Trade Secrets Act and other state statutes provided no effective criminal response.

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<sup>203</sup> § 134A.004(a).

<sup>204</sup> § 134A.004(b).

<sup>205</sup> § 134A.005.

<sup>206</sup> Texas Uniform Trade Secrets Act § 134A.002(6).

<sup>207</sup> § 134A.002(4).

<sup>208</sup> § 134A.002(5).

<sup>209</sup> § 134A.006.

<sup>210</sup> See 18 U.S.C. § 1831 (West 2012).

<sup>211</sup> Mark L. Krotski, *Common Issues and Challenges in Prosecuting Trade Secret and Economic Espionage Act Cases*, ECON. ESPIONAGE AND TRADE SECRETS (Nov. 2009), [http://www.justice.gov/usao/eousa/foia\\_reading\\_room/usab5705.pdf](http://www.justice.gov/usao/eousa/foia_reading_room/usab5705.pdf).

The EEA contains two distinct provisions, § 1831, which addresses economic espionage directed by foreign governments, and § 1832, which prohibits the commercial theft of trade secrets carried out for economic or commercial advantage, whether the perpetrator is foreign or domestic.<sup>212</sup> Both sections may control acts committed outside the country.<sup>213</sup> The EEA applies if the offender is a citizen or resident alien of the United States, or an organization organized under the laws of the United States or any state.<sup>214</sup> Section 1831 applies when there is evidence of foreign government sponsored or coordinated intelligence activity.<sup>215</sup> The Government must prove that:

- (1) the defendant stole, or without the owner's authorization obtained, destroyed, or conveyed information that he knew or believed was a trade secret;
- (2) the information was a trade secret; and
- (3) the defendant intended or knew that the offense would benefit a foreign government, instrumentality, or agent.<sup>216</sup>

An individual convicted under § 1831 can be imprisoned for up to 15 years and be fined up to \$5,000,000 USD.<sup>217</sup> An organization can be fined the greater of \$10,000,000 USD or three times the value of the trade secret to the organization, including expenses for research and development and other costs of reproducing the trade secret that the theft avoided.<sup>218</sup>

Under § 1832, the Government must prove beyond a reasonable doubt that:

- (1) the defendant stole, or without the owner's authorization obtained, sent, destroyed, or conveyed information that he knew or believed was a trade secret;
- (2) the information was in fact a trade secret;
- (3) the defendant intended to convert the trade secret to the economic benefit of somebody other than the owner;
- (4) the defendant knew or intended that the owner of the trade secret would be injured; and
- (5) the trade secret was related to, or was included in, *a product or service used in or*

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<sup>212</sup> 18 U.S.C. §§ 1831, 1832.

<sup>213</sup> *See id.*

<sup>214</sup> 18 U.S.C. § 1837 (West 2012).

<sup>215</sup> *See* 18 U.S.C. § 1831.

<sup>216</sup> *United States v. Hanjuan Jin*, 833 F. Supp. 2d 977, 1005 (N.D. Ill. 2012).

<sup>217</sup> 18 U.S.C. § 1831(a).

<sup>218</sup> 18 U.S.C. § 1831(b).

*intended for use in interstate or foreign commerce.*<sup>219</sup>

An individual convicted under § 1832 can be imprisoned for up to ten years and fined of up to \$250,000 USD.<sup>220</sup> An organization can be fined up to \$5,000,000 USD.<sup>221</sup>

President Obama enacted the Theft of Trade Secrets Clarification Act of 2012 to clarify the scope of § 1832 to reverse *United States v. Aleynikov*.<sup>222</sup> It changed the prior language which required that the trade secret be “*included in a product that is produced for or placed in interstate or foreign commerce . . .*”<sup>223</sup> In that manner, the enactment of the Theft of Trade Secrets Clarification Act of 2012 provided for the protection of wholly internal proprietary information if the information relates to products or services that are used in interstate or foreign commerce. The case involved Aleynikov, a Goldman Sachs employee, who misappropriated internal information related to trading and was not found in violation of the statute’s former language.<sup>224</sup>

### III. CONCLUSION

Intellectual property rights is a complex topic, even when treated at a basic level. The interpretation of intellectual property law may be best left to specialists, but having knowledge of intellectual property basics may give the business lawyer the ability to react quickly to protect the important intellectual property of his or her client.

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<sup>219</sup> *Hanjuan Jin*, 833 F. Supp. 2d at 1005.

<sup>220</sup> 18 U.S.C. § 1832(a).

<sup>221</sup> 18 U.S.C. § 1832(b).

<sup>222</sup> *See* 18 U.S.C. § 1832.

<sup>223</sup> *See* Pub. L. No. 104-294, 110 Stat. 3489 (1996) (current version at 18 U.S.C. § 1832). The new language of Section 1832 is italicized in the corresponding text.

<sup>224</sup> Charles Doyle, *Stealing Trade Secrets and Economic Espionage: An Overview of 18 U.S.C. 1831 and 1832*, CONG. RESEARCH SERV. (Jan. 28, 2013), <https://www.fas.org/sgp/crs/secretary/R42681.pdf>.