

CHAPTER XI

Intellectual Property

Marcus A. Manos, Esquire
Dorothy Rutledge
Todd A. Serbin, Esquire
Nexsen Pruet, LLC

E. Trade Dress¹

1. Introduction

Trade dress is an elusive concept that is difficult to define in a few simple words. Trade dress is a combination of many factors that allow the target audience to identify a product. Those factors include:

- a. Package configuration
- b. Product configuration
- c. Appearance of locations

Trade dress is the visual image by which the product or service is presented to the relevant consuming public. It can include shape, appearance, and color of the product itself or packaging which is distinctive enough to identify the source of the goods or services. *See* J. Thomas McCarthy, *Trademarks and Unfair Competition* §§ 8:1-8:7, 7:23-7:33 (2d ed. 1984). Trade dress law exists concurrently at the state and federal levels.

2. Trade Dress Protection

Trade dress is protectable as an unregistered trademark under the Lanham Act, (15 U.S.C. §§ 1114(a)(1) and 1125(a)), when it is nonfunctional. Trade dress involves the total image of the product or service including size, shape, color, texture, graphics. Trade dress must be either inherently distinctive (*See Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992)), or acquire secondary meaning in the relevant market place so as to be identified with a particular producer or source of goods or services. *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 219 U.S.P.Q. 515 (11th Cir. 1983).

a. History of Trade Dress Protection

(1) The elements for a cause of action for trade dress infringement are: (1) the trade dress is inherently distinctive or has acquired secondary meaning; (2) the trade dress is primarily non-functional; and (3) the defendant's trade dress is confusingly similar, creating a likelihood of confusion in the relevant consumer group. *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 12 U.S.P.Q.2d 1423 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990).

(2) Trade dress is governed by trademark law rules and principals and has developed as an arm of trademark law, not a competing body of law. The courts viewed the expansive use of trade dress protection as furthering Section 43(a)'s prohibition on the use of any...

¹ This section authored by Marcus A. Manos.

“word, term, name, symbol, or device, or any combination thereof” which is “likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection or association...” of one party’s goods and services with another’s.

(3) The logic of trade dress law fits with consumer buying patterns--at the grocery, the pharmacy, the hardware store or the department store consumers often spot a product by its distinct packaging, color scheme or shape. A competitor on the shelf with a similar product and package may easily trade on the other products reputation. Traditionally, placing your own trademark on the deceptively similar trade dress did not constitute a defense. *Harlequin Enterprises Ltd. v. Gulf & Western Corp.*, 644 F.2d 946, 210 U.S.P.Q. 1 (2d Cir. 1981); *Source Perrier S.A. v. Waters of Saratoga Spring, Inc.*, 217 U.S.P.Q. 617 (S.D.N.Y. 1982). The test of confusion was not a side by side comparison, but the overall impression created by the trade dress. *RJR Foods, Inc. v. White rock Corp.*, 603 F.2d 1058, 203 U.S.P.Q. 401 (2d Cir. 1979).

3. The Federal Circuit: Don’t Worry, Everybody Reads the Labels

The Second Circuit began to chip away at the broad scope of trade dress protection in *Bristol-Myers Squibb Co. v. McNeil-P.P.C., Inc.*, 973 F.2d 1033, 24 U.S.P.Q.2d 1161 (2d Cir. 1992). The court affirmed the finding that defendant McNeil intentionally copied the packaging and colors of plaintiff’s successful EXCEDRIN PM product for its competing TYLENOL PM. The court reversed liability however because, it found, the trade name (i.e. trademark) on each product formed the most distinctive and obvious part of the trade dress so confusion would be unlikely. The court did not adopt a per se position that the mere inclusion of your own mark on an otherwise distinctive trade dress of a competitor would always cure the problem of confusion. *See also L.A. Gear, Inc. v. Thom McAn Shoe Co.*, 988 F.2d 1117, 25 U.S.P.Q.2d 1913 (Fed. Cir.), *cert. denied*, 114 S. Ct. 291 (1993).

The Federal Circuit has extended this new limited reading of trade dress to almost a per se rule in *Conopco, Inc. v. May Dept. Stores Co.*, 46 F.3d 1556, 32 U.S.P.Q.2d 1225 (Fed. Cir. 1994), *cert. denied*, 115 S. Ct. 1724 (1995). The court of appeals reversed detailed findings of fact on likelihood of confusion, including testimony of a consumer who bought the defendant’s generic hand lotion thinking it was VASELINE INTENSIVE CARE. The trade dress of the generic was identical, except the front contained the Venture department store logo with the words VENTURE INTENSIVE CARE hand lotion. The court found the prominent display of the Venture logo dispositive despite all other evidence. When the decision is read as a whole, the court’s reasoning clearly assumes that mass-market consumers read the labels before buying. If the Federal Circuit is correct, there is no place for trade dress law, because no consumer would ever be fooled just by packaging, color scheme, shape or size.

This decision, if taken to its logical limit, means an end to trade dress protection. I know from my own buying habits that the underlying assumption is incorrect. I do not always read the label. Do you? The *Conopco* decision may equate trade dress protection with pet rocks, just another footnote in history.

4. Trade Dress Survives

The Fourth Circuit Court of Appeals, which includes South Carolina, refused to adopt the *Conopco* standard. Trade dress cases remain alive and well. A major battleground in any trade dress case will be functionality. As a paralegal working the file finding evidence that the alleged trade dress does or does not contribute to the function of the product will be one of your responsibilities. Functionality usually is an issue of fact for the jury. *McAirlaids, Inc. v. Kimberly-Clark Corp.*, 756 F.3d 307, 310-11 (4th Cir. 2014). The statute

prohibits registration of trade dress that “as a whole ... is functional.” 15 U.S.C. § 1052(e). The same standard applies in common law trade dress cases. *McAirlaisds*, 756 F.3d at 311.

Just like in trademark litigation discussed below, the key to prevailing in a trade dress case will be showing the existence or lack of likelihood of consumer confusion in the relevant market for the product. The best evidence comes from consumers actually testifying they confused the two products or services, but this can be very difficult to develop. The next best is an expert conducting a survey of possible buyers in the relevant market (if the product is commercial the relevant market may not be common consumers but businesses). One job is to insure the survey expert used will be qualified to testify. *Belk, Inc. v. Meyer Corp., U.S.*, 679 F.3d 146, 161-62 (4th Cir. 2012). Confusion means the buyer thinks they are getting the trade dress owner’s product or service, thus even if you use the trade dress if it is obviously not from the owner, no case exists. *Louis Vuitton Malletier, S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007) (CHEWY VUITTON dog toys a successful parody of LOUIS VUITTON trade dress and trademarks, not likely to cause confusion because of very different markets for products and clear humorous intent).

Gathering and indexing evidence of intent or lack of intent to copy trade dress will be an important part of your job as a paralegal working a trade dress case. If a trade dress owner can prove intentional copying, a rebuttable presumption of likelihood of confusion operates in their favor. *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 158-160 (4th Cir. 2012).

Trade dress may still be alive in state court actions in most states as well. South Carolina, however, does not recognize a common law claim for trade dress infringement independent of the Federal Lanham Act or the South Carolina Unfair Trade Practices Act. *Global Protection Corp. v. Halbersberg*, 332 S.C. 149, 156, 503 S.E.2d 483, 486-87 (Ct. App. 1998).

F. Trade Secrets ²

A trade secret is a useful compilation of information, technique, process, or method of doing business that is not generally known or easily derived by persons in the same business or profession. The owner must take reasonable steps to protect the trade secret from unauthorized disclosure such as security measures, copy control, distribution control, and agreements for non-disclosure and non-use. Even when a trade secret is misappropriated, if third innocent third parties receive the secret without knowledge of its misappropriation, the trade secret status is lost.

1. Source of the Law

South Carolina has the Uniform Trade Secret Act and there are federal statutes which protect trade secrets. A trade secret must be information, a method of production, a chemical formula, sales plan, or other useful information, which cannot be readily ascertained from publicly available sources, which is useful in business. In order to qualify as a trade secret, the owner must have policies and practices in place to avoid unauthorized copying, limit access, and otherwise protect the secret. *See Lowndes Products, Inc. v. Brower*, 259 S.C. 322, 191 S.E.2d 761 (1972).

The world of trade secrets changed dramatically in May of 2016 when President Obama signed the Federal Defend Trade Secret Act into law. 18 U.S.C. §§ 1831-1839.

² This section authored by Marc us A. Manos.

The Act specifically did not preempt state trade secret law. 18 U.S.C. §1838. If a trade secret is misappropriated, the owner can seize goods or materials using the trade secret, get an injunction and recover damages, including possibly doubling the damages for intentional conduct and attorneys' fees in certain circumstances. 18 U.S.C. §1836. Thus we now have two types of IP litigation that happen concurrently in state or federal court—trademark/trade dress and trade secrets. The other two, patent and copyright, are exclusively federal.

The DTSA allows a trade secret owner to file a civil lawsuit in United States District Court for trade secret theft under the Federal Economic Espionage Act.

2. Elements (Proof in a Case Must be Organized Around These)

- a. A useful formula, pattern, device, practice or information
- b. Actually used in business
- c. Not commonly known or used
- d. Cannot be easily derived from publicly available information
- e. Owner takes steps to keep secret and protect
- f. Taker violates a legal duty in acquiring the trade secret, i.e. misappropriates the trade secret.

G. Jurisdiction: The Intertwining of Federal and State Court Systems and Certain Peculiarities of IP Litigation³

1. Patent Litigation

Patent cases arise in the United States District Courts and jurisdiction is exclusive. 28 U.S.C. §1338. This exclusive jurisdiction covers any issue which deals with the enforcement of a patent, validity, injunction against infringement, or infringement. A state court may entertain issues which relate to a patent including lawsuits over agreements to share ownership under a contract, tort claims of misappropriation, and other state law claims which are not primarily designed to determine the validity of or enforce the patent itself. *Kleinerman v. Snitzer*, 754 F. Supp. 1 (D. Mass. 1990). Thus, a state court in a contract action has jurisdiction to determine a defense raising patent issues. *Lear, Inc. v. Adkins*, 395 U.S. 653, 676 (1969). Questions of patent ownership based on contract or equitable principles such as unjust enrichment, (as opposed to equitable principles like fraud on the PTO or misconduct in pursuing the application), may be heard in state courts. *Am. Telephone & Telegraph Co. v. Integrated Network Corp.*, 972 F.2d 1321 (Fed. Cir. 1992).

Venue in patent infringement cases belongs in the district where the defendant resides or in any district where infringement allegedly occurred and the defendant has a regular and established place of business. 28 U.S.C. § 1400(b).

Appeals in all patent cases go to the Federal Circuit Court of Appeals in Washington, D.C. 28 U.S.C. §§ 1292(c)(2) and 1295.

Most United States District Courts now have specific local patent rules. The District of South Carolina does not at this time. Be sure to check for local patent rules if you are assisting in patent litigation. Here is an example from the Western District of North Carolina.

http://www.ncwd.uscourts.gov/sites/default/files/local_patent_rules/Local_Patent_Rules_Final_3-17-11.pdf

³ This section authored by Marcus A. Manos.

One great change in patent litigation that occurred in 1996. The Supreme Court of the United States determined that the meaning of the claims in a patent should be construed by the court as a matter of law. This construction occurs in a non-jury hearing, relatively early in the case, after construction related discovery and before general discovery and dispositive motions. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed.Cir.1995), *aff'd*, 517 U.S. 370 (1996). The *Markman* hearing requires a great deal of specific, technical work at the front end of any patent case.

“An infringement analysis requires the trial court to determine the meaning and scope of the asserted patent claims.” *Leggett & Platt, Inc. v. Hickory Springs Mfg. Co.*, 285 F.3d 1353, 1357 (Fed.Cir.2002). “A ... patent infringement analysis involves two steps: the proper construction of the asserted claim and a determination as to whether the accused method or product infringes the asserted claim as properly construed.” *Vitronics Corp. v. Conceptoronic, Inc.*, 90 F.3d 1576, 1581–82 (Fed.Cir.1996). “The first step, claim construction, is a matter of law...” *Id.* at 1582.

“Claim construction begins with the language of the claims.” *3M Innovative Prop. Co. v. Avery Dennison Corp.*, 350 F.3d 1365, 1370 (Fed.Cir.2003). “In construing patent claims, there is a heavy presumption that a claim term carries its ordinary and customary meaning ..., namely its meaning amongst artisans of ordinary skill in the relevant art at the time of the invention.” *Id.* (internal quotation marks and citations omitted). “Dictionaries and treatises may also assist the courts.” *Id.* (internal quotation marks omitted).

“A term's ordinary meaning, however, must be considered in the context of all intrinsic evidence, namely the claims, the specification, and the prosecution history.” *Id.* at 1371. “While limitations in the specification must not be routinely imported into the claims because a patentee need not describe all embodiments of his invention, ... a definition of a claim term in the specification will prevail over a term's ordinary meaning if the patentee has acted as his own lexicographer and clearly set forth a different definition.” *Id.* (internal citation omitted).

Caponey v. ADA Enterprises, Inc., 511 F.Supp.2d 616 (D.S.C. 2007).

The Supreme Court also changed the law for awarding attorneys' fees and costs to the prevailing party in patent cases in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, — U.S. —, 134 S.Ct. 1749, 188 L.Ed.2d 816 (2014). No longer must a prevailing party prove subjective bad faith and unreasonable legal positions, instead an “exceptional case,” within meaning of the Patent Act's fee-shifting provision, is simply one that stands out from others with respect to the substantive strength of a party's litigating position, considering both the governing law and the facts of the case, or the unreasonable manner in which the case was litigated. Further it need only be proved by a preponderance of the evidence, not clear and convincing evidence.

2. Copyright Litigation

Copyright validity and infringement litigation, like patent litigation, is in the exclusive original jurisdiction of the United States District Courts. 28 U.S.C. § 1338(a); *Van Dusen v. Southeast First Nat'l Bank*, 478 So.2d 82 (Fla. App. 1985). The Copyright Act preempts any state remedy, civil or criminal, which is based on the elements of copyright infringement. *Rosciszewski v. Arete Assocs., Inc.*, 1 F.3d 225, 27 U.S.P.Q.2d 1678 (4th Cir. 1993). However, as with patents, a claim of copyright ownership based on contract or equitable rights may be decided by a state court. *Forry, Inc. v. Neundorfer, Inc.*, 837 F.2d 259, 5 U.S.P.Q.2d 1510, 113 A.L.R. Fed. 857 (6th Cir. 1988); *Cresci v. Music Publishers Holding Corp.*, 210 F. Supp. 253, 135 U.S.P.Q. 18 (S.D.N.Y. 1962).

Venue in copyright cases belongs to the district where the defendant or his agent resides or may be found. 28 U.S.C. § 1400(a). This venue provision is much broader than the patent provision as the agent of the infringer will often be anyone selling or distributing the infringing material. The courts have broadly applied the “may be found” language to hold defendants subject to venue in any district where there is personal jurisdiction. *Linzer v. EMI Blackwood Music, Inc.*, 904 F. Supp. 207, 215 (S.D.N.Y. 1995); *but see Blue Compass Corp. v. Polish Masters of America*, 777 F. Supp. 4 (D. Vt. 1991) (Refusing to apply this broad standard to a non-corporate defendant).

Copyright appeals are to the circuit which embraces the district court. 28 U.S.C. § 1294.

A modified version *Octane Fitness* standards applies to Copyright Act attorneys’ fee awards. A court must consider the objective reasonableness of the legal positions taken by the non-prevailing party, but also weigh all factors including frivolousness, motivation, objective unreasonableness, and the need in particular circumstances to advance considerations of compensation and deterrence to reach a decision if the case is exceptional enough to award fees. *Kirtsaeng v. John Wiley & Sons, Inc.*, ___ U.S. ___, 136 S.Ct. 1979, 195 L.Ed.2d 368 (2016).

A design incorporated into a functional/useful article “...is only eligible for copyright protection only if the feature can be perceived as a two- or three-dimensional work of art separate from the useful article, and it would qualify as a protectable pictorial, graphic, or sculptural work, either on its own or fixed in some other tangible medium of expression.” *Star Athletica, L.L.C. v. Varsity Brands, Inc.*, ___ U.S. ___, 137 S.Ct. 1002, 197 L.Ed.2d 354 (2017).

3. Trademark Litigation

The federal district courts have original jurisdiction over trademark cases, but this jurisdiction is concurrent with state courts. 28 U.S.C. § 1338(a); 15 U.S.C. § 1121. Thus, as the enforcing party you must make the call as to whether state or federal court is the preferable forum. South Carolina recognizes both statutory state trademark infringement and registration (S.C. Code Ann. §§1105-1195) as well as common law. South Carolina also recently held that a general liability insurance policy with an advertising liability rider, does insure to defend and pay for a trademark infringement answer. *Super Duper Inc. v. Pennsylvania Nat. Mut. Cas. Ins. Co.*, 385 S.C. 201, 683 S.E.2d 792 (2009).

In federal actions for trademark infringement, venue follows the general venue statute 28 U.S.C. § 1391. Trademark and trade dress cases can be brought in state or federal court.

Trademark appeals are to the circuit which embraces the district court.

The Fourth Circuit applied the Supreme Court’s *Octane Fitness* standard for awarding attorneys’ fees for a patent claim to determining if a prevailing party may recover attorneys’ fees in an exceptional trademark case. *Georgia-Pacific Consumer Products LP v. von Drehle Corp.*, 781 F.3d 710, 719–21 (4th Cir. 2015)

4. Unfair Competition Litigation

Two provisions allow federal courts general jurisdiction of unfair competition claims.

(1) Whenever a claim of unfair competition is joined with a substantial issue of patent, copyright or federal trademark law, then jurisdiction over it in federal district court is appropriate. 28 U.S.C. § 1338(b).

(2) Section 43(a) of the Lanham Act (15 U.S.C. § 1125(a)), was amended in 1988 to make actionable misrepresentations about the goods or services of another as well as about your own goods or services. This section applies to unregistered marks, passing off, fraudulent advertising, and many other areas typically within the common law of unfair

competition. See C. McKenney & G. Long, III, *Federal Unfair Competition: Lanham Act § 43(a)*, §§ 1.03 and 1.05 (Clark, Boardman & Callaghan 1995 revision). Thus, there is an option of bringing what may have been traditional state law unfair competition in federal court with specified statutory remedies which should be reviewed.

Depending on the potential infringer's conduct, proceedings in the PTO may sometimes provide an effective alternative to litigation. A patent application interference proceeding, a trademark application objection, or a trademark cancellation proceeding may provide the needed relief or settlement leverage at lower cost.

5. Choosing Your Claims

Once you have decided which court you prefer, if you have a choice, you must select the claims. Any case of intellectual property infringement will often have aspects of common law unfair competition, conversion, breach of fiduciary duty or other torts. If you are in federal court pendent jurisdiction is appropriate over such claims. *Gilbert/Robinson, Inc. v. Carrie Beverage-Missouri, Inc.*, 989 F.2d 985 (8th Cir. 1993), *cert denied*, 114 S. Ct. 338 (1993).

Remedies will be discussed elsewhere, but remember that the Copyright Act, Lanham Act, patent law, and state statutory provisions grant extraordinary remedies such as injunction, seizure or destruction of infringing goods, statutory damages, exemplary damages, and/or attorneys' fees. These need to be pleaded. Defendants should note that most attorneys' fees statutes today are interpreted to award them to successful defendants as well under appropriate circumstances. *Fogerty v. Fantasy, Inc.*, 114 S. Ct. 1023 (1994) (Allowing copyright defendants attorneys' fees on the same basis as plaintiffs).

In addition to evaluating your state common law claims, do not forget state statutory laws. The fifty states and District of Columbia all have their own parallel trademark registration schemes, many of which also offer special remedies for enforcement of state registered or common law marks. See, e.g., S.C. Code Ann. §§ 39-15-1105 to -1190 (Cum. Supp. 1995).

Many state trademark statutes contain an additional remedy for dilution of a famous mark. These anti-dilution statutes provide a powerful weapon to the holders of well-known marks when another party's actions dilute the strength of the mark. The relief is injunctive unless the violation is intentional. S.C. Code Ann. § 39-15-1165.

Many states have also enacted the Uniform Trade Secrets Act or similar legislation which can be useful in protecting intellectual property. See, e.g., S.C. Code Ann. §§ 39-8-1 to -11 (Cum. Supp. 1995).

Unfair Trade Practices laws can also be useful in intellectual property litigation.

6. Preliminary Relief

Each form of intellectual property litigation allows a plaintiff making a sufficient preliminary showing temporary relief during the pendency of the litigation. Federal courts generally face issues of preliminary injunction, seizure and impound, and import prohibition (not truly a pre-trial remedy but an independent right under 17 U.S.C. § 603 in copyright cases), more frequently than state courts. Indeed, state courts do not have authority to prevent importation of infringing articles.

A preliminary or temporary injunction creates tremendous leverage on the defendant. However, failure in seeking one can prejudice the case. Preliminary injunction materials must be thoroughly prepared and researched. Such a motion cannot be delayed for too long, the lack of urgency in bringing the motion weighs against the existence of irreparable harm.

If a defendant has a counterclaim, he should also consider preliminary pre-trial relief.

7. Counterclaims

Where there is a dispute over infringement or ownership there is almost always a counterclaim. The defendant should consider that the best defense includes a good offense. Bring the counterclaim and seek all appropriate remedies.

8. Affirmative Defenses

Intellectual property and unfair competition litigation lends itself to certain unusual affirmative defenses.

- a. Patent Cases: Fraud on the office in the registration process; failure to list an inventor; misuse (using the patent in a anti-competitive way not contemplated by the patent rights granted such as tying it to the purchase of a non-patented good or service); failure of one of the elements of patentability; functionality in the case of a design patent; obviousness or prior invention; on-sale bar (item disclosed or offered for sale more than a year before application).
- b. Copyright Cases: License; misuse; inequitable conduct--misrepresentations to the Copyright Office; unclean hands directly related to the right being enforced; laches; estoppel; fair use (17 U.S.C. § 107), and innocent intent (not a complete defense but may negate damages).
- c. Trademark Cases: Misuse of registered symbol; abandonment; limitation of claims in registration application; fraud on the PTO; inequitable conduct associated with the use of the mark; functionality in the case of trade dress; and lack of one or more of the elements for registration.

9. Summary Judgment

Often a useful tool for both parties as many of the elements of an action and affirmative defenses can be determined as a matter of law.

While much of the procedure in intellectual property litigation parallels other litigation, the unique statutory structures and the purposes of common law unfair competition provide many nuances uncommon in other forms of litigation.