

# INTELLECTUAL PROPERTY

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## I. INTRODUCTION

This is the second year the Fifth Circuit survey prepared annually by the Texas Tech Law Review will contain a section covering intellectual property. This past year was accented by Fifth Circuit decisions in copyright law, unfair competition, and trademark law. In addition, a number of important district court decisions involving patent law dotted the landscape governed by the Fifth Circuit.<sup>1</sup>

## II. COPYRIGHTS

The United States Fifth Circuit Court of Appeals addressed a number of fundamental issues in copyright law during the past year concerning the make up of a copyright itself, the infringement of a copyright, fair use, and a host of related licensing issues.

Pursuant to 17 U.S.C. § 106, a United States copyright confers the right, among other things:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

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1. As all patent practitioners know, federal district court decisions involving patent law are appealed to the Court of Appeals for the Federal Circuit in Washington, D.C. For this reason, pertinent federal district court decisions involving patent law will be included in this survey.

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publically. . . .<sup>2</sup>

While infringement is naturally of utmost concern to copyright owners, the copyright statute itself is silent concerning infringement matters. As amended in 1976, 17 U.S.C. § 501(a) merely states that “[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118, . . . or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright.”<sup>3</sup>

Section 501(b) adds: “The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of section 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it.”<sup>4</sup> Consequently, courts have traditionally required a plaintiff to prove that he owned the copyright and that it was copied.<sup>5</sup> The United States Supreme Court recently modified these requirements in *Feist Publications, Inc. v. Rural Telephone Service Co.*, stating that a plaintiff must prove “(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original.”<sup>6</sup> Direct evidence of copying, which can be provided by an eyewitness, videotape, or admission, is seldom available. Consequently, courts have followed the well-established rule requiring plaintiffs to prove that infringers had access to the copyrighted and infringed works and that the infringing works are substantially similar to the copyrighted and infringed works.<sup>7</sup> Both of these requirements are findings of fact that are reviewable under the clearly erroneous standard.<sup>8</sup> This is black letter law, and thus, the Fifth Circuit did not provide any surprises in this area. Historically, however, the degree and nature of the necessary proof in relation to the facts has varied

2. 17 U.S.C. § 106 (1988 & Supp. V 1993).

3. *Id.* § 501(a).

4. *Id.* § 501(b).

5. See 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.01 (1994). “Reduced to most fundamental terms, there are only two elements necessary to the plaintiff’s case in an infringement action: ownership of the copyright by the plaintiff and copying by the defendant.” *Id.* (footnotes omitted).

6. 499 U.S. 340, 361 (1991) (citing *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 548 (1985)); see 3 NIMMER & NIMMER, *supra* note 5, § 13.03[B][2][b].

7. See 3 NIMMER & NIMMER, *supra* note 5, § 13.02[A]-[C].

8. See, e.g., *Plains Cotton Coop. Ass’n v. Goodpasture Computer Serv., Inc.*, 807 F.2d 1256, 1260 (5th Cir.), *cert. denied*, 484 U.S. 821 (1987); *Miller v. Universal City Studios, Inc.*, 650 F.2d 1365, 1375 (5th Cir. 1981); *Ferguson v. National Broadcasting Co., Inc.*, 584 F.2d 111, 113 (5th Cir. 1978); *Autoskill, Sys., Inc. v. National Educ. Support Sys., Inc.*, 994 F.2d 1476, 1489 (10th Cir.), *cert. denied*, \_\_\_ U.S. \_\_\_, 114 S. Ct. 307, 126 L. Ed. 2d 254 (1993). All of these cases were cited in footnote four of *Kepler-Tregoe, Inc. v. Leadership Software, Inc.*, 12 F.3d 527, 533-34 (5th Cir. Feb.), *cert. denied*, \_\_\_ U.S. \_\_\_, 115 S. Ct. 82, 130 L. Ed. 2d 35 (1994).

substantially from case to case.<sup>9</sup> Every new holding in this area offers the practitioner additional insight into courts' rationale regarding these matters.

### A. Access Defined

While holdings in this area are hardly consistent, "access" in copyright decision cases has traditionally been defined as "an opportunity to copy"<sup>10</sup> or "a reasonable opportunity to view."<sup>11</sup> Access can clearly be implied when the same person who authored the original work to which a different person holds the copyright is accused of violating that copyright. Access is more difficult to imply, however, when one arm of a corporate entity reviewed a copyrighted work, while another arm authored a work that "accidentally" turned out to be substantially similar. The Fifth Circuit addressed both issues over the past year.

The Fifth Circuit addressed the first issue in *Kepner-Tregoe, Inc. v. Leadership Software, Inc.*<sup>12</sup> In *Kepner-Tregoe*, Kepner-Tregoe, Inc. ("K-T"), sued the defendant, Leadership Software, Inc. ("LSI"), complaining that LSI's computer program infringed copyrighted management materials that had been previously licensed to K-T.<sup>13</sup> K-T had previously acquired an exclusive international license to copyrighted manuals entitled *Leadership and Decision Making Cases and Manuals for Use in Leadership Training*, comprised of a decision-making model, descriptions of management problems, explanations of management decision-making possibilities, and general management rules created by Professor Vroom, one of the two owners of LSI.<sup>14</sup> In 1983, Professor Vroom, in conjunction with Professor Jago, owner of the other half of LSI, automated the management model by writing a computer program that implemented much of the methodology described in the copyrighted materials.<sup>15</sup> Although Professor Jago and Professor Vroom updated the methodology in their computer program with

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9. See 3 NIMMER & NIMMER, *supra* note 5, § 13.02[C]; *Morrissey v. Proctor & Gamble Co.*, 379 F.2d 675, 677 (1st Cir. 1967); *Vantage Point, Inc. v. Parker Bros., Inc.*, 529 F. Supp. 1204, 1212-13 (E.D.N.Y. 1981), *aff'd mem.*, *Vantage Point, Inc. v. Milton Bradley Co.*, 697 F.2d 301 (2d Cir. 1982); *Fuld v. National Broadcasting Co., Inc.*, 390 F. Supp. 877, 881 (S.D.N.Y. 1975); *Scott v. WKJG, Inc.*, 149 U.S.P.Q. 413 (N.D. Ind. 1966), *aff'd*, 376 F.2d 467 (7th Cir.), *cert. denied*, 389 U.S. 832 (1967); *Doran v. Sunset House Distrib. Corp.*, 197 F. Supp. 940, 947-48 (S.D. Cal. 1961), *aff'd*, 304 F.2d 251 (9th Cir. 1962); *Scarves by Vera, Inc. v. United Merchants & Mfrs., Inc.*, 173 F. Supp. 625, 627 (S.D.N.Y. 1959).

10. See 3 NIMMER & NIMMER, *supra* note 5, § 13.02[A].

11. See W. PATRY, *LATMAN'S THE COPYRIGHT LAW* 192 (6th ed. 1986); see, e.g., *Sid & Marty Krofft Television Prod., Inc. v. McDonald's Corp.*, 562 F.2d 1157, 1172 (9th Cir. 1977).

12. 12 F.3d 527, 533 (5th Cir. Feb.) *cert. denied*, \_\_\_ U.S. \_\_\_, 115 S. Ct. 82, 130 L. Ed. 2d 35 (1994).

13. *Id.* at 531.

14. *Id.*

15. *Id.*

additional information and questions, the computer program included some of the earlier materials; the text of one of the manuals was copied exactly, while the text of the other manual was changed somewhat.<sup>16</sup> It is important to note that while the computer program supplemented the methodology presented in the manuals, the overall scheme remained the same. The program contained both old and new information. LSI offered to license its computer program to K-T, but negotiations broke down and LSI began selling copies of the program.<sup>17</sup> K-T sued LSI, seeking to enjoin LSI from copying, producing, distributing, or selling the program.<sup>18</sup>

The district court held that LSI's program infringed K-T's licensed, copyrighted materials, finding that K-T owned a valid copyright over the licensed materials, that LSI copied portions of the licensed materials, and that the portions copied were substantially similar.<sup>19</sup> On appeal, LSI argued that K-T failed to prove that LSI had actually copied K-T's license materials. Additionally, LSI maintained that the court erred in extending copyright protection to *inherently unprotectible* elements of K-T's materials.<sup>20</sup>

Writing for a unanimous court,<sup>21</sup> Judge Wiener confirmed the district court's holding that access clearly existed. LSI argued that it did not copy the originals, but only copied copies that were possessed by third parties. The court characterized this argument as "nonsensical."<sup>22</sup> It is not clear from the court's opinion whether the "copies" were verbatim copies actually provided by K-T itself, copies obtained from third parties, or copies from prior publications of Professor Vroom. Nevertheless, the court's holding in *Kepner-Tregoe* simply extended the definition of access to include "access through a third party,"<sup>23</sup> which would ostensibly cover all three situations. Judge Wiener emphasized the similarity of the actual text and the common authorship and found access to the infringed works, inferring that the similarity implied that access existed (which it clearly did in this case).<sup>24</sup> It is not clear, however, whether the converse is true. One court has held that "[n]o amount of proof of access will suffice to show copying if there are no similarities."<sup>25</sup> LSI did not dispute that elements found in the computer program were substantially similar to elements found in the manuals, probably because they were identical in the first version.<sup>26</sup>

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16. *Id.*

17. *Id.*

18. *Id.*

19. *Id.* at 532.

20. *Id.*

21. Judge Johnson and Judge DeMoss joined in the decision.

22. *Kepner-Tregoe*, 12 F.3d at 533.

23. *Id.* (citing *Arica Inst., Inc. v. Palmer*, 970 F.2d 1067, 1074 (2d Cir. 1992)).

24. *Id.*

25. *Wickman v. Knoxville Int'l Energy Exposition, Inc.*, 739 F.2d 1094, 1097 (6th Cir. 1984).

26. *Kepner-Tregoe*, 12 F.3d at 533.

After dividing the district court's opinion into three sections (old copyrighted materials, old and new copyrighted materials, and future copyrighted materials) and addressing each section separately, the Fifth Circuit held that the district court's finding was not clearly erroneous.<sup>27</sup>

In another unanimous decision authored by Judge Garza, in which Judge Wiener and Judge Smith joined, affirming the district court's grant of a summary judgment, the court appeared to restrict findings of access to situations in which the alleged infringer actually viewed the copyrighted work prior to producing the infringing work.<sup>28</sup> In *McGaughey v. Twentieth Century Fox Television*, the plaintiff, McGaughey, sued three defendants, Twentieth Century Fox Television ("Fox"), Time Warner, Inc. ("Time"), and Viacom, Inc. ("Viacom").<sup>29</sup> McGaughey charged all three with infringing the copyright in his unpublished novel, *The Saurian*, by production, exhibition, and distribution of the motion picture *Dreamscape*.<sup>30</sup> McGaughey's agent sent portions of McGaughey's novel to Fox on or about April 22, 1981, and Fox declined any interest in McGaughey's novel on May 13, 1981.<sup>31</sup> Coincidentally, David Loughery wrote the *Dreamscape* script between the summer of 1980 and January of 1981, registering the script with the Writer's Guild of America on February 26, 1981.<sup>32</sup> Loughery helped rewrite the script in 1982 with other writers hired by the film director.<sup>33</sup> All of the scriptwriters submitted affidavits denying knowledge of McGaughey's novel.<sup>34</sup> As Judge Garza noted, McGaughey did not submit any affidavits whatsoever, much less affidavits that controverted the defendants' denial of knowledge.<sup>35</sup> Pointing to the timing of the correspondence, the fact that the initial version of the script did not provide access of any sort, and the fact that the authors denied ever seeing the novel, the court confirmed the district court's finding for Fox.<sup>36</sup>

The court's decision leaves several questions unanswered. For instance, the court's decision ignores the issue of "substantial similarity." As discussed above, access can be inferred when "substantial similarity" exists. Similarly, the court ducked the issue of "corporate receipt," a doctrine that presumes access when there is disclosure to one arm of a corporate entity, regardless of whether proof exists that the other arm ever actually saw the

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27. *Id.* at 532-40.

28. *McGaughey v. Twentieth Century Fox Television*, 12 F.3d 62 (5th Cir. Jan. 1994).

29. *Id.* at 63.

30. *Id.*

31. *Id.*

32. *Id.*

33. *Id.*

34. *Id.*

35. *Id.* at 65.

36. *Id.* at 64.

disclosure.<sup>37</sup> Citing a host of prior decisions, Nimmer's treatise reaches the opposite conclusion from that reached in *McGaughey*, stating:

[I]f the defendant is a corporation, the fact that one employee of the corporation has possession of plaintiff's work should warrant a finding that another employee (who composed defendant's work) had access to plaintiff's work, where by reason of the physical propinquity between the employees the latter has the opportunity to view the work in the possession of the former.<sup>38</sup>

Finally, the mere fact that the infringing work was commenced before the infringed work could actually be (or was) accessed does not directly speak to the issue of whether the infringed work was copied. Copiers oftentimes change, add to, or otherwise alter earlier versions of their work to add infringing matter.<sup>39</sup>

### B. *Idea/Expression Merger Doctrine*

In *Kepner-Tregoe*, the defendant, LSI, argued that certain portions of K-T's licensed materials (which were allegedly copied) were not capable of being copyrighted because they consisted of unprotectible ideas or facts that were not original.<sup>40</sup> This argument is based upon the fundamental notion that copyright law protects tangible, original expressions of ideas, not ideas themselves. This concept was discussed in great detail in last year's survey article on intellectual property.<sup>41</sup> Congress codified the idea/expression merger doctrine, which is often referred to as the "idea/expression dichotomy" or "fact/expression dichotomy," in section 102(b) of the Copyright Act of 1976. The Copyright Act grants copyright protection to "original works of authorship fixed in any tangible medium of expression,"<sup>42</sup> but restricts copyright protection to expressions, not ideas, stating that "[i]n no case does copyright protection for an original work of authorship extend to any idea . . . regardless of the form in which it is

37. *Id.* at 65. More specifically, the court held that "[i]t is unnecessary to discuss the issue of corporate receipt because the district court found that the persons involved with the writing of the original script and its rewrite did not have knowledge of the appellant or his novel." *Id.*

38. 3 NIMMER & NIMMER, *supra* note 5, § 13.02[A]; *Moore v. Columbia Pictures Indus., Inc.*, 972 F.2d 939, 942 (8th Cir. 1992); *Morrissey v. Proctor & Gamble Co.*, 379 F.2d 675, 677 (1st Cir. 1967); *Bevan v. Columbia Broadcasting Sys., Inc.*, 329 F. Supp. 601, 608 (S.D.N.Y. 1971); *Dezendorf v. Twentieth Century-Fox Film Corp.*, 32 F. Supp. 359, 359 (S.D. Cal. 1940), *aff'd*, 118 F.2d 561 (9th Cir. 1941).

39. *See, e.g., American Greetings Corp. v. Easter Unlimited, Inc.*, 579 F. Supp. 607, 613 (S.D.N.Y. 1983).

40. *Kepner-Tregoe*, 12 F.3d at 533-34.

41. *See R. Darryl Burke, Intellectual Property*, 25 TEX. TECH L. REV. 735, 735-47 (1994); *see also Mason v. Montgomery Data*, 967 F.2d 135, 138 (5th Cir. 1992) (stating that while a copyright bars others from copying an author's original expression of an idea, it does not bar them from using the idea itself).

42. 17 U.S.C. § 102(a) (1988 & Supp. V 1993).

described, explained, illustrated, or embodied in such work.’’<sup>43</sup> In short, as the United States Supreme Court stated, “[n]o author may copyright facts or ideas[,]” and “[t]he copyright is limited to those aspects of the work—termed ‘expression’—that display the stamp of the author’s originality.’’<sup>44</sup>

Regarding the old copyrightable materials, the court in *Kepner-Tregoe* pointed to the actual findings of the district court in comparing selected portions of text from the manuals to selected portions of text from the computer program. The comparison showed that the selected portions were actually identical, and thus, the Fifth Circuit upheld the district court.<sup>45</sup> Strategically, the facts themselves forced LSI to make an all or nothing argument.<sup>46</sup> If LSI had not copied the text of the manual verbatim, LSI could have argued that the new text constituted a different “expression.” Because they had copied the text, however, LSI chose to argue that none of the copied text was copyrightable. This was a direct contradiction to their earlier contention that Professor Vroom had licensed the materials to K-T on the basis that they *were* copyrightable. Either the materials were copyrightable or the materials were not copyrightable. The fact that Professor Vroom took the money suggested that, at one time, he thought they were copyrightable.

Regarding the old and new copyrighted materials or, in other words, the new portions added to the old copyrighted materials in the computer program, Judge Wiener agreed with the district court that the computer program infringed upon K-T’s licensed copyright, but for different reasons.<sup>47</sup> The district court based its decision on a cursory comparison, concentrating on areas where one phrase was replaced with a different phrase of identical meaning, for example “you solve the problem yourself” became “you reach a solution alone” and “you consult one-to-one with those that report to you” became “you share the problem with relevant subordinates.’’<sup>48</sup>

Pointing to the fact that “their paragraphs are about the same size, their phrases are similar, their ideas are presented in the same order,” the court found that “[i]t is still a copy—still a child of infringement.’’<sup>49</sup> In response to LSI’s arguments that the ideas contained in the above sentences

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43. *Id.* § 102(b). The Ninth Circuit commented that “[o]thers are free to utilize the ‘idea’ so long as they do not plagiarize its ‘expression.’” *Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738, 741 (9th Cir. 1971).

44. *Harper & Row, Publishers, Inc., v. Nation Enters.*, 471 U.S. 539, 547 (1985); *see also Kepner-Tregoe*, 12 F.3d at 533 n.9 (citing the Copyright Act of 1976, 17 U.S.C. § 102(b) (1988)).

45. *Kepner-Tregoe*, 12 F.3d at 533.

46. *Id.*

47. *Id.* at 535.

48. *Id.*

49. *Id.* at 536.

constituted "law[s] of nature" and "fundamental, ineluctable aspects of a managerial relationship," the court pointed to the organization and presentation of information.<sup>50</sup> Finally, Judge Wiener dismissed the charge that the model originally contained in the licensed materials was unprotectible because it had been placed in the public domain and because it had been "widely discussed, described, and reproduced," holding that this activity by the public merely constituted fair use.<sup>51</sup> Section 107 of The Copyright Act of 1976 provides that "fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright."<sup>52</sup> As Judge Wiener commented, fair use does not include commercial uses, such as the manufacture and sale of computer programs.<sup>53</sup>

In flowery language that will no doubt be quoted for years to come, Judge Wiener described the issue as follows:

As an analogy, consider the familiar quote from *Romeo and Juliet*: "O Romeo, Romeo! wherefore art thou Romeo?" Reformulating this quote in a manner analogous to LSI's modification of K-T's copyrighted language, we might write: "Ah Romeo, Romeo! Why did you have to be born Romeo?" Are these two quotes alike only in conceptual substance? Obviously not! Yes, they both express the same concept: why did Juliet have to fall in love with Romeo, scion of Montague—her family's bitterest foe? But they are also quite alike in expression. Both sentences embrace the dramatic repetition of Romeo's name. Both sentences are phrased as questions. Both have the quality of a sigh: the gasping resignation of a woman marvelling at the fateful irony of life. Although the two sentences are not identical, they are manifestly similar in *expression*, as well as in conceptual content.<sup>54</sup>

However, the point made by the above passage is not without its own ambiguities. Despite Judge Wiener's assertion to the contrary, it is not completely clear that the two quotes are "alike in conceptual substance." One could argue that Shakespeare was making a point concerning the irony of life with an ironic statement itself and that the simple phrase may be interpreted any number of ways (indeed, no doubt numerous articles, dissertations, and books have been written on this subject).<sup>55</sup> Judge Wiener's restatement of Shakespeare's quote, consequently, merely reflects one interpretation out of many possible interpretations. The following passage in which Juliet states

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50. *Id.*

51. *Id.* at 537-38.

52. 17 U.S.C. § 107 (1988 & Supp. V 1993).

53. *Kepner-Tregoe*, 12 F.3d at 538.

54. *Id.* at 535.

55. The author notes for the record that he is not a Shakespearean scholar.



Deny thy father and refuse thy name;  
Or, if thou wilt not, be but sworn my love,  
And, I'll no longer be a Capulet<sup>56</sup>

actually asks the question "why did he have to be born a Montague and not a Capulet?" and arguably more closely corresponds in concept to Judge Wiener's quote, "Romeo, Romeo! why did you have to be born Romeo?" Examination of Judge Wiener's comparison leads inevitably to one question: Should copyright protection extend to every possible interpretation of a work or only the actual words in a particular work?

Moreover, it is not clear from the discussion provided by the court exactly what it is that is objectionable. The fact that both quotes are questions? That both sentences repeat Romeo's name? That both have the quality of a sigh? That both attempt to portray a woman marvelling at the fateful irony of life? It seems that all of these characteristics are concepts. Once again, should copyright protection extend to each and every one of these concepts or just to the fact that all are combined at the same time?

A later quote in the passage perhaps indirectly elucidates Judge Wiener's point. Specifically, Juliet responds to Romeo's confusion by exclaiming:

'Tis but thy name that is my enemy;  
Thou art thyself, though not a Montague.  
What's Montague? It is nor hand nor foot,  
Nor arm nor leg, [nor any other part]  
Belonging to a man. O, be some other name!  
What's in a name? That which we call a rose  
By any other word would smell as sweet.<sup>57</sup>

While Juliet believes that a person's identity should be separate from their mere name in a perfect world, reality dictates the opposite. Despite her soliloquy, and as the last scene of the play confirms, the two cannot be separated because they are unmistakably merged together. Words mean things. Names mean things. Changing either words or names changes the meaning of a work. Once again, assuming the idea remains the same while the expression changes, how broad a protection should copyright provide?

Like *Mason v. Montgomery Data, Inc.*,<sup>58</sup> which was discussed in last year's review,<sup>59</sup> *Kepner-Tregoe* is a significant holding because it delineates the difference between the nature of ideas and their expression. It also underscores the importance of actually comparing selected portions of text from the infringed and infringing works in one's argument to the court. This is entirely consistent with the standard of "originality" propagated by

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56. WILLIAM SHAKESPEARE, *ROMEO AND JULIET* at 2, sc. 2.

57. *Id.*

58. 967 F.2d 135 (5th Cir. 1992).

59. See Burke, *supra* note 41, at 738-43.

the Supreme Court in *Feist Publications, Inc. v. Rural Telephone Service Co.*<sup>60</sup> and followed by the Fifth Circuit in *Mason*,<sup>61</sup> which focused on the "selection, coordination, and arrangement of the information."<sup>62</sup> While facts alone are not copyrightable, compilations or unique presentations of facts are copyrightable.<sup>63</sup> The holding also demonstrates the importance to authors of explicitly retaining the rights to their ideas (e.g., in licensing agreements).

Some questions remain. For instance, the court did not directly address the issue of copyrightable derivative works or related copyrighted derivative works placed in the public domain via scholarly articles and the like. Similarly, analogizing to the use of a formula to compute an answer, does it matter if an author uses the same formula, but changes the order of mathematical steps in such a manner that it violates mathematical conventions, yet does not change the answer?

### C. Implied License

The Fifth Circuit in *Kepner-Tregoe* also rejected LSI's argument that K-T's encouragement of LSI's efforts effectively granted, through implication, a non-exclusive license to use the copyrighted materials and to incorporate the copyrighted materials into LSI's program. The district court emphasized that there was nothing in the record showing that K-T knew LSI intended to sell the program at the time K-T provided the encouragement. In doing so, however, the district court ignored the fact that LSI and K-T attempted to negotiate a commercial license for the program. Implied rights, such as those granted by an implied license, have traditionally been inferred when courts deem them necessary to enjoy or exercise the rights that have been granted via an assignment, express license, or purchase.<sup>64</sup>

By comparison, numerous decisions in patent law have also developed the notion of an implied license. In patent law, an implied license stems from the circumstances surrounding the sale of a patent product or process and/or the authorization to use a patented process.<sup>65</sup> Courts have implied a right to use a purchased article for its intended purpose, provided there was adequate compensation.<sup>66</sup> Before implying a license to use a pur-

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60. 499 U.S. 340, 348 (1991).

61. 967 F.2d at 141.

62. *Id.*

63. *Id.*

64. See 3 NIMMER & NIMMER, *supra* note 5, § 10.10[C].

65. See ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT 173-76 (2d ed. 1991).

66. *United States v. Univis Lens Co.*, 316 U.S. 241, 250-52 (1942); see *Devices for Medicine, Inc. v. Boehl*, 822 F.2d 1062, 1068 (Fed. Cir. 1987); *Hodosh v. Block Drug Co., Inc.*, 833 F.2d 1575, 1577-80 (Fed. Cir. 1987), *cert. denied*, 485 U.S. 1007 (1988); *Unidisco, Inc. v. Schattner*, 824 F.2d 965, 967-68 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1042 (1988); *King Instrument Corp. v. Otari Corp.*, 814

chased, patented invention, however, the Federal Circuit has generally required that the purchased equipment have no noninfringing uses and that the circumstances of the sale must plainly indicate that the grant of a license should be inferred.<sup>67</sup>

#### D. Damages

Title 17 U.S.C. § 505 provides that “the court may also award a reasonable attorney’s fee to the prevailing party as part of the costs.”<sup>68</sup> The Fifth Circuit has long since held that “[a]lthough attorney’s fees are awarded in the trial court’s discretion [in copyright cases], they are the rule rather than the exception and should be awarded routinely.”<sup>69</sup> Judge Garza in *McGaughey* rejected McGaughey’s argument that attorneys’ fees should only be awarded as a sanction and not as the “rule.”<sup>70</sup> In so doing, the Fifth Circuit has effectively cemented an exception to the “American Rule,” which holds that fees are not generally recoverable absent a statute or an enforceable contract between the parties.<sup>71</sup> Consequently, only the very rich or the very poor appear to have access to the court system to enforce a copyright claim. Interestingly enough, some have rationalized the decision as ensuring access for all litigants, even in the absence of an economic incentive.<sup>72</sup> Nevertheless, while the issue does not appear to be well settled in other circuits,<sup>73</sup> it is so in the Fifth Circuit. One wonders whether the court would pierce the corporate veil of a corporation without assets created entirely for the purposes of suing a larger corporate entity. Creating such a corporation may provide a legal vehicle for the middle class to enforce a claim.

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F.2d 1560, 1563-64 (Fed. Cir. 1987); *Met-Coil Sys. Corp. v. Korners Unlimited, Inc.*, 803 F.2d 684, 686-87 (Fed. Cir. 1986); *Porter v. Farmers Supply Serv., Inc.*, 790 F.2d 882, 884-86 (Fed. Cir. 1986); *Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 924-25 (Fed. Cir. 1984); *Stickle v. Heublein*, 716 F.2d 1550, 1558-59 (Fed. Cir. 1983).

67. *Met-Coil*, 803 F.2d at 686.

68. 17 U.S.C. § 505 (1988 & Supp. V 1993).

69. *McGaughey v. Twentieth Century Fox Television*, 12 F.3d 62 (5th Cir. Jan. 1994) (citing *Micromanipulator Co., Inc., v. Bough*, 779 F.2d 255, 259 (5th Cir. 1985)); *CJC Holdings, Inc. v. Wright & Lato, Inc.*, 979 F.2d 60, 65 (5th Cir. 1992).

70. *McGaughey*, 12 F.3d at 65.

71. *See, e.g., Tang How v. Edward J. Gerrits, Inc.*, 961 F.2d 174, 179 (11th Cir. 1992).

72. *Quinto v. Legal Times of Wash., Inc.*, 511 F. Supp. 579, 581 (D. D.C. 1981).

73. *See Original Appalachian Artworks, Inc. v. McCall Pattern Co.*, 825 F.2d 355, 357 n.2 (11th Cir. 1987) (citing *Topstone* in dictum); *Lieb v. Topstone Indus., Inc.*, 788 F.2d 151, 156 (3d Cir. 1986) (holding that prevailing party is not entitled to fees as a matter of course); *see generally* 3 NIMMER & NIMMER, *supra* note 5, § 14.10[D] (explaining that many circuits have not resolved this issue).

## III. TRADEMARKS

The Fifth Circuit adopted the Seventh Circuit's rule regarding the standard of proof required to succeed on a claim of fraudulent registration in *Meineke Discount Muffler v. Jaynes*.<sup>74</sup> Meineke Discount Muffler Shops, Inc. ("Meineke") sued two former franchise owners, *inter alia*, for violating a licensing agreement.<sup>75</sup> In 1980, Wesley and Marion Jaynes ("the Jaynes") purchased a Meineke franchise from Robert Strange, who had a fifteen-year licensing agreement with Meineke that expired on September 28, 1989.<sup>76</sup> Before the expiration of the licensing agreement, the Jaynes entered into an operating agreement with Autocare Distribution d/b/a Mike's Muffler and Brake ("Autocare").<sup>77</sup> Pursuant to the agreement, the Jaynes opened a "Mike's Muffler and Brake" shop in the exact same location as their former Meineke franchise on September 1, 1989 and continued to perform the same services and offer the same products under a different name.<sup>78</sup> Meineke sued, alleging, *inter alia*, that the Jaynes used Meineke's protected trademarks without authorization.<sup>79</sup> The Jaynes attempted to cancel Meineke's federally registered trademarks on the basis of fraud.<sup>80</sup> In particular, the Jaynes argued that Meineke failed to disclose to the United States Patent and Trademark Office the previous use of the tradename "Bass & Meineke," which is the tradename for an auto parts business that did not and does not compete directly with Meineke.<sup>81</sup>

Trademarks may be cancelled if the challenging party proves, by clear and convincing evidence, that the applicant made false statements with the intent to deceive the licensing authorities.<sup>82</sup> Fraud is one of the few ways to cancel a registered trademark, especially after the trademark has been registered for more than five years.<sup>83</sup> A letter between Mr. Meineke and Mr. Bass granting Mr. Meineke the right to use the tradename "Meineke" in connection with the automotive muffler installation and repair business appeared to be controlling.<sup>84</sup> In short, Mr. Bass consented to the use, so there was no reason for the Patent and Trademark Office to interfere with

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74. 999 F.2d 120, 126 (5th Cir. Aug. 1993).

75. *Id.* at 122.

76. *Id.*

77. *Id.*

78. *Id.*

79. *Id.*

80. *Id.* at 125-26.

81. *Id.*

82. *See Money Store v. Harriscorp Fin., Inc.*, 689 F.2d 666, 670 (7th Cir. 1982).

83. *See* 15 U.S.C. §§ 1064-65 (1988); *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 197 (1985); *Selva & Sons, Inc. v. Nina Footwear, Inc.*, 705 F.2d 1316, 1326 (Fed. Cir. 1983).

84. *Meineke*, 999 F.2d at 126.

the wishes of the parties. It appears from the facts that this counterclaim was specious.

#### IV. COVENANTS NOT TO COMPETE

Without a doubt, covenants not to compete have been one of the most active areas of intellectual property in Texas over the past several years. The struggle between the Texas Supreme Court and the Texas Legislature has created a climate of tremendous uncertainty. At the heart of the struggle appears to be the issue of balancing the interests of the employer and the employee: the goodwill of the business, partly generated by the employees, versus the right of the employee to enjoy a livelihood. This issue has generally come to a head in Texas in at-will employment contexts, which the Fifth Circuit fortunately did not have to address this term.

The enforceability of covenants not to compete are determined under the Texas Covenant Not to Compete Act ("Act").<sup>85</sup> Under the Act, two basic requirements must be met for a covenant not to compete to be valid and enforceable:

- (1) The covenant must be "ancillary to or part of an otherwise enforceable agreement at the time the agreement is made"; and
- (2) The covenant not to compete must contain "limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee."<sup>86</sup>

Section 15.52 provides that the Act's provisions regarding the validity and enforcement of covenants not to compete preempt any other rules regarding noncompetition clauses from common law. The Texas Supreme Court has confirmed that the Act largely supplants the Texas common law relating to enforcement of covenants not to compete.<sup>87</sup> Interestingly, the supreme court found that section 5 of the 1993 amendments to the Act states that the Act "applies to a covenant not to compete entered into before, on, or after the effective date of this Act."<sup>88</sup> Accordingly, the Texas Supreme Court has applied the Act retroactively to agreements entered into prior to the Act's enactment.<sup>89</sup>

The franchise agreement in *Meineke* also contained a covenant not to compete.<sup>90</sup> The Texas Supreme Court has made it clear that the inquiry does not end after it is determined that an otherwise enforceable agreement,

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85. TEX. BUS. & COM. CODE ANN. §§ 15.50-15.52 (Vernon Supp. 1995).

86. *Id.* § 15.50.

87. *Light v. Centel Cellular Co.*, 883 S.W.2d 642, 644 (Tex. 1994) (citing TEX. BUS. & COM. CODE ANN. § 15.52).

88. *Id.*

89. *Id.*

90. *Meineke*, 999 F.2d at 123.

such as a franchise agreement, exists. Rather, the covenant not to compete must be ancillary to or a part of that agreement.<sup>91</sup> A restraint is not ancillary to a contract unless it is designed to enforce a contractual obligation of one of the parties.<sup>92</sup>

As discussed above, while this requirement has been a major issue in recent years with respect to employment agreements, the nature of a franchise agreement minimizes its importance in the franchise context. Consequently, the Fifth Circuit in *Meineke* affirmed the district court's ruling that the covenant not to compete was ancillary to the otherwise enforceable franchise contract.<sup>93</sup> The *Meineke* franchise agreement also placed restrictions on operating a competing business "within the one (1) year period following the termination that is located within a radius of twenty (20) miles" from the franchise location.<sup>94</sup> Pursuant to section 15.51(c), the court must, upon request, reform a covenant not to compete if the court determines that the restraints regarding time, geographical area, or scope of activity are overbroad. Applying the Texas statute to the *Meineke* franchise agreement, the Fifth Circuit held that the restrictions were not overbroad or unreasonable.

In this situation, since the Jaynes did not move their operation, it is not clear whether a reformed covenant not to compete that restricted the geographical area would have helped their case. Thus, perhaps the only viable challenge to this particular covenant would have been one based on the time restriction, although numerous Texas courts have held one- or two-year restrictions reasonable.<sup>95</sup>

## V. CONCLUSION

All of the above cases illustrate the trials and tribulations associated with enforcing one's property rights in the intellectual property arena. Inconsistent decisions reflect the unique facts of each case as well as the evolving law. Deciding what is protectible and what is not, as well as what constitutes infringement, are fundamental issues that every case involving intellectual property must directly or indirectly address. Balancing the rights of the creator against those of society will be a continuing concern of the

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91. *Light*, 883 S.W.2d at 646-47.

92. *Id.*

93. *Meineke*, 999 F.2d at 123.

94. *Id.* at 122-23.

95. *See id.* at 123 (citing *Ruscitto v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 777 F. Supp. 1349, 1354 (N.D. Tex.), *aff'd*, 948 F.2d 1286 (5th Cir. 1991), *cert. denied*, \_\_\_ U.S. \_\_\_, 112 S. Ct. 1994, 118 L. Ed. 2d 590 (1992); *Isuani v. Manske-Sheffield Radiology Group, P.A.*, 805 S.W.2d 602, 606 (Tex. App.—Beaumont 1991, writ denied); *Property Tax Assocs. v. Staffeldt*, 800 S.W.2d 349, 352 (Tex. App.—El Paso 1990, writ denied); *Posey v. Monier Resources, Inc.*, 768 S.W.2d 915, 918-19 (Tex. App.—San Antonio 1989, writ denied)).

courts, including the Fifth Circuit, for many years to come.

