January 2021

Intellectual Property Survey

Kara L. Rossetti

Follow this and additional works at: https://digitalcommons.du.edu/dlr

Recommended Citation

This Article is brought to you for free and open access by the University of Denver Sturm College of Law at Digital Commons @ DU. It has been accepted for inclusion in Denver Law Review by an authorized editor of Digital Commons @ DU. For more information, please contact jennifer.cox@du.edu,dig-commons@du.edu.
In this age of growing technology, the value of proprietary rights has rapidly increased. Businesses have responded by fiercely protecting intellectual property rights. Legal counsel advising their corporate clients must consider the rights, remedies, and appropriate application of intellectual property laws. Further, counsel must consider the substantive requirements to obtain trade secret, trademark, copyright, and patent protection and vigilantly prevent or resolve infringement upon the protections thereby acquired.

Trademarks provide a shortcut for consumers to associate goods with a specific producer, the trademark owner. The Lanham Trademark Act ("Lanham Act") established substantive federal legislation for the protection of trademarks. Through the Lanham Act, Congress protects against the deceptive or misleading use of trademarks in commerce to prevent consumer confusion and to protect a trademark owner’s investment in the mark. With this statutory protection in place, counsel should attend to the extent of protection available for business marks, including the gamut of remedies available for trademark infringement and the limitations thereupon.

During the survey period, the United States Court of Appeals for the Tenth Circuit addressed the recovery of compensatory damages for trademark infringement. Part I of this survey addresses the Supreme Court’s interpretation of the Lanham Act in the areas of awarding trademark protection and identifying trademark infringement. Part II proceeds to evaluate recoverable damages of trademark infringement, highlighting the special limitations on an award of attorney’s fees and an accounting of defendant’s profits acquired through the unlawful use of the plaintiff’s trademark. Finally, Part III details the split in the federal circuits regarding recovery for an accounting of profits and specifically addresses the Tenth Circuit’s adoption of the “bad faith” or “willfulness” requirement for recovery of an accounting of profits.

Patents provide protection for artists and inventors of extraordinary writings, inventions, and discoveries. The Patent and Copyright Clause
of the Constitution provides a limited period of exclusive control over an invention to encourage intellectual creativity and invention. While reviewing regulation of unpatented subject matter, the Supreme Court established the broad preemption over state law of this constitutionally authorized federal patent law. However, the Supreme Court has since carved out several state law exceptions to the doctrine of federal preemption. These exceptions are crucial to effect the licensing of patent rights. Therefore, counsel should consider the interplay between state contract law and federal patent law when drafting licensing agreements regarding patent rights.

During the survey period, the Tenth Circuit also addressed the issue of federal patent law preemption of state contract law in the context of state licensing agreements. Part I of this survey addresses the congressional policies behind patent protection, the Supreme Court's interpretation of these policies, and the federal preemption doctrine in the area of patent law. Part II proceeds to evaluate the Supreme Court's exceptions to the federal preemption doctrine and specifically addresses exceptions regarding state contract law. Next, Part III addresses the Tenth Circuit's approach to the interaction of state licensing agreements and the federal patent scheme. Finally, Part IV analyzes the impact of inapplicability of federal patent law.

I. RECOVERING DAMAGES FOR TRADEMARK INFRINGEMENT

Trademark regulation is of crucial concern because a word, slogan, picture, or symbol has become a merchandising short cut inducing a consumer to associate a mark with certain goods and services. In 1946, Congress enacted the Lanham Act to provide a federal statutory scheme


The Supreme Court has recognized that a familiar trademark can be invaluable to a producer because of the psychological function of the symbol. See id. The mark can induce a consumer to purchase: what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value.

Id.
for trademark regulation. Congress intended to provide consistent national regulation by regulat[ing] commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce; . . . protect[ing] registered marks used in such commerce from interference by State, or territorial legislation; . . . protect[ing] persons engaged in such commerce against unfair competition; . . . [and] prevent[ing] fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks . . . .

To protect a trademark owner’s investment of time, energy, and money, and to stop the deceptive and misleading use of marks, the Lanham Act outlines the elements of trademark infringement and establishes remedies for infringement. The federal circuits differ in their interpretation of the available compensatory damages for infringement. Possible compensatory damages include awarding an accounting of defendant’s profits, damages sustained by the plaintiff, and costs of the action. Specifically, the federal circuits have split concerning the availability of an accounting of profits for trademark infringement. In Bishop v. Equinox Int’l Corp, the Tenth Circuit considered whether compensatory damages should be awarded in trademark infringement cases.

A. Background

1. Trademark Classification

Congress passed the Lanham Act to protect persons engaged in commerce against unfair competition by prohibiting the “deceptive or misleading use of marks.” The Lanham Act defines a trademark as “any word, name, symbol, or device, or any combination thereof . . . [used] to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.” To register the mark, the
Lanham Act requires that a mark be capable of distinguishing the applicant’s goods from those of others.

Generally, trademarks receive protection if the mark is distinctive and identifies the source of a product. The Supreme Court separates trademarks into classes of increasing distinctiveness, which afford the marks increasing levels of protection. The Court classifies trademarks as (1) generic, (2) descriptive, (3) suggestive, (4) arbitrary, and (5) fanciful. A generic mark indicates the “basic nature of articles or services” rather than the more individualized characteristics of a particular product. A descriptive mark “identifies a characteristic or quality of an article or service,” such as its color, odor, function, dimensions, or ingredients. A suggestive mark “suggests, rather than describes, some particular characteristic of the goods or services to which it applies and requires the consumer to exercise the imagination in order to draw a conclusion as to the nature of the goods and services.” Arbitrary or fanciful marks “bear no relationship to the products or services to which they apply.”

Suggestive, arbitrary, and fanciful marks are entitled to protection because they are inherently distinctive and the nature of the mark identifies the source of the product. Generic marks do not receive protection because they are too general. The Supreme Court has said that “generic marks—that ‘refer to the genus of which the particular product is a species,’ are not registrable as trademarks.” Descriptive marks—which merely describe a product—are generally not protected because they are not inherently distinctive and do not identify the source of the product. However, if a descriptive mark “become[s] distinctive of the applicant’s goods in commerce,” the mark acquires “secondary protection.”

19. See id. § 1052.
21. See Two Pesos, 505 U.S. at 768.
22. See id.
23. Zatarains Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786, 790 (5th Cir. 1983) (quoting American Heritage Life Ins. Co. v. Heritage Life Ins. Co., 494 F.2d 3, 11 (5th Cir. 1974)). “A generic term is ‘the name of a particular genus or class of which an individual article or service is but a member.’ Zatarains, 698 F.2d at 790 (quoting Vision Ctr. v. Opticks, Inc., 596 F.2d 111, 115 (5th Cir. 1979)). For example, the term “aspirin” or “cellophane” is generic. Id.
24. Id. (quoting Vision Ctr., 596 F.2d at 115). For example, the term “Alo” referring “to products containing gel of the aloe vera plant” is descriptive. Id.
25. Id. at 791. For example, “[t]he term ‘Coppertone’ is suggestive in regard to sun tanning products.” Id. (citing Douglas Labs. Corp. v. Copper Tan, Inc., 210 F.2d 453, 455 (2d Cir. 1954)).
26. Id. For example, the term “Kodak” is fanciful for photographic supplies. Id. (citing Eastman Kodak Co. v. Weil, 137 Misc. 506, 243 N.Y.S. 319 (1930)).
27. See Two Pesos, 505 U.S. at 768.
28. See id. at 768.
29. Id. (quoting Park ‘n Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 194 (1985)).
30. See Two Pesos, 505 U.S. at 769.
cant’s goods in commerce,” the mark acquires “secondary meaning” and is therefore entitled to protection under the Lanham Act. Summarizing this analysis, the Supreme Court has developed the general rule that “[a]n identifying mark is distinctive and capable of being protected if it either (1) is inherently distinctive or (2) has acquired distinctiveness through secondary meaning.”

After counsel obtains protection for a client’s business marks, counsel must attend to potential infringement of these marks. The Lanham Act, as followed by the Supreme Court and federal circuits, outlines the appropriate test to determine trademark infringement.

2. Trademark Infringement

The Lanham Act uses the “likelihood of confusion” test to determine trademark infringement. The Act states:

[any person who . . . uses in commerce any word, term, name, symbol, or device . . . which . . . is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

When a trademark is of such a nature to warrant protection, a plaintiff has the burden of proving that the mark causes the likelihood of consumer confusion in the market. The fundamental inquiry for trademark infringement cases is whether the consumer is “likely to be deceived or confused by the similarity of the marks.”

The Tenth Circuit evaluates trademark infringement cases by applying the “likelihood of confusion” test. The Tenth Circuit has held

31. Park ‘n Fly, 469 U.S. at 194. “The concept of secondary meaning recognizes that words with an ordinary and primary meaning of their own ‘may by long use [in connection] with a particular product, come to be known by the public as specifically designating that product.’” Zatarains, Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786, 791 (5th Cir. 1983) (quoting Volkswagenwerk Aktiengesellschaft v. Rickard, 492 F.2d 474, 477 (5th Cir. 1974)).
32. Two Pesos, 505 U.S. at 769 (citing 15 U.S.C. §§ 1052(e), (f)).
33. Id.
35. Id. § 1125(a)(1).
36. See Two Pesos, 505 U.S. at 769. See also Libman Co. v. Vining Indus., Inc., 69 F.3d 1360, 1361 (7th Cir. 1995) (holding that plaintiff failed to establish defendant’s product was likely to create consumer confusion); Lang v. Retirement Living Publ’g Co., Inc., 949 F.2d 576, 584 (2d Cir. 1991) (holding that defendant did not infringe on plaintiff’s trade name because plaintiff failed to prove consumer confusion).
37. Two Pesos, 505 U.S. at 780 (quoting New West Corp. v. NYM Co. of Cal., 595 F.2d 1194, 1201 (9th Cir. 1979)).
38. See Heartsprings, Inc. v. Heartspring, Inc., 143 F.3d 550, 553 (10th Cir. 1998). See also Cardtoons, L.C. v. Major League Baseball Players Ass’n, 95 F.3d 959, 967 (10th Cir. 1996) (holding
that "[c]onfusion occurs when consumers make an incorrect mental asso-
ciation between the involved commercial products or their producers."

To determine whether confusion exists, the Tenth Circuit has used the
following six factors:

(a) the degree of similarity between the marks, including the marks’
appearance, pronunciation, suggestion, and manner of display;

(b) strength or weakness of the plaintiff’s mark;

(c) the intent of the alleged infringer in adopting its mark;

(d) similarities and differences of the parties’ goods, services and
marketing strategies;

(e) the degree of care likely to be exercised by purchasers of the
goods or services involved; and

(f) evidence of actual confusion, if any.

Because the relevance of the factors varies with each case, all of the
factors contribute to a final determination. However, the Tenth Circuit
has noted that the key factor is the likelihood of confusion based on the
marks’ similarity.

that likelihood of confusion is a question of fact that appellate courts will review under a clear error
analysis); Beer Nuts, Inc. v. Clover Club Foods Co., 805 F.2d 920, 923 n.2 (10th Cir. 1986) (noting
that although the federal circuits split regarding the standard of review for likelihood of confusion,
the Tenth Circuit follows a clear error review).

(Brennan, J., dissenting)).

40. Heartsprings, 143 F.3d at 554. See also King of the Mountain Sports, Inc. v. Chrysler
Corp., 185 F.3d 1084, 1089-90 (10th Cir. 1999) (utilizing the same six factors to determine
trademark infringement); Jordache, 828 F.2d at 1484 (citing RESTATEMENT (FIRST) OF TORTS § 729
same six factors to determine trademark infringement). But see Libman Co., 69 F.3d at 1364
(Coffey, J., dissenting). In Libman, the Seventh Circuit failed to follow similar factors. Id. at 1364-
65. Judge Coffey, dissenting, criticized the majority’s analysis for “depart[ing] from well-established
precedent in [the Seventh] [C]ircuit,” which, until Libman, had included analysis of the following
factors:

1. similarity between the marks in appearance and suggestion;
2. similarity of the products;
3. area and manner of concurrent use;
4. degree of care likely to be exercised by consumers;
5. strength of complainant’s mark;
6. actual confusion; and
7. intent of defendant to ‘palm-off his product as that of another.’

Id.

41. See Heartsprings, 143 F.3d at 554. With a “clear error” standard of review, the appellate
court is faced with a high threshold for reversal. Id. at 553-54. Therefore, although a trial court
incorrectly analyzes one or more factors, a genuine dispute of material fact will probably not exist
with all factors considered together and properly analyzed. Id. at 558.

42. See id. at 554.
After counsel successfully proves trademark infringement of a client’s mark, the client is entitled to a variety of remedies. For monetary recovery, including plaintiff’s losses, defendant’s profits, and costs of the action, counsel must plead the requisite provisions outlined by the Lanham Act and interpreted by the federal circuits in order to recover.

3. Recoverable Damages

The Lanham Act mandates that if a plaintiff establishes trademark infringement “in any civil action arising under this [Act], the plaintiff shall be entitled, subject to . . . the principles of equity, to recover (1) defendant’s profits, (2) any damages [the plaintiff] sustain[s], . . . and (3) the costs of the action.” Generally, plaintiff’s damages can include actual damages, defendant’s profits, equitable adjustments, counterfeit remedies, attorney’s fees, and prejudgment interest in exceptional cases as appropriate to each case.

To recover for actual damages, defined as “any damages sustained by the plaintiff,” a plaintiff must prove that the trademark infringement caused actual consumer confusion and that the plaintiff suffered an actual injury. The plaintiff’s actual losses often include various injuries to the business of the trademark owner. Accordingly, plaintiff’s most commonly recover for their sales lost or diverted due to the trademark infringement. If the plaintiff lacks sufficient evidence to prove actual lost or diverted sales, some federal circuits have awarded actual damages based “on the reasonable royalty rate normally charged for the infringing use.” In addition to lost sales, plaintiffs can recover money spent as a
result of the defendant’s infringement. For example, in false advertising cases, plaintiffs may recover for corrective advertising expenses. In franchise cases, plaintiffs can recover interest on lost franchise fees and money required to entice new licensees.

To recover “defendant’s profits,” the plaintiff must typically prove that the defendant willfully infringed on plaintiff’s trademark. To calculate defendant’s profits, plaintiffs have the simplified burden of establishing only defendant’s gross sales. Courts may give the plaintiff “the benefit of the doubt . . . where records are inadequate or unavailable to prove defendant’s profits.” After the plaintiff has proved defendant’s gross profits, the burden shifts to the defendant. The defendant has the burden of proving expenses, which the court will subtract from defendant’s gross revenues in order to calculate the defendant’s profit from the infringement. However, courts do not allow deductions for losses on infringing sales, federal income taxes on infringement sales, or attorney’s fees for litigation resulting from infringement.

Courts have discretion to make equitable adjustments to plaintiff’s monetary award by either adding or subtracting an amount to or from damages based on the circumstances of the case. The Lanham Act allows the court to adjust the award of profits if the court deems that the award is excessive or inadequate. For example, for defendant’s willful

51. Bussert, supra note 45, at 368.
52. False advertising cases arise from false representations or descriptions “made in the advertising context, especially in regard to assurances made about the quality of goods or services.” See Thill, supra note 2, at 363-64.
53. See Bussert, supra note 45, at 368-69. See also Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 561 F.2d 1365, 1374-76 (10th Cir. 1977) (holding that when the plaintiff has yet to expend resources on corrective advertising, courts may calculate the amount recoverable by analyzing the amount spent by the defendant on infringing advertisements).
54. See Bussert, supra note 45, at 370.
55. See discussion of willful infringement infra notes 78-83 and accompanying text.
56. However, a split has developed among the circuits and some circuits have abandoned the defendant’s bad faith requirement. See Bussert, supra note 45, at 370.
57. See Bussert, supra note 45, at 373.
58. Id. See also Wesco Mfg., Inc. v. Tropical Attractions of Palm Beach, Inc., 833 F.2d 1484, 1488 (11th Cir. 1987) (“Although the exact amount of infringing sales cannot be determined from the [evidence], exactness is not required. [The defendant] is in the best position to ascertain exact sales and profits, and it bears the burden of doing so in an accounting.”).
59. See Bussert, supra note 45, at 374. See also Wesco, 833 F.2d at 1488.
60. See Bussert, supra note 45, at 374-75. See also Wesco, 833 F.2d at 1488. The deduction of costs must be a specific cost or expense related to the sale of infringing goods or services. See Bussert, supra note 45, at 375. If defendant fails to prove deductible costs, courts have awarded defendant’s entire gross income to plaintiff. See Id.
61. See Bussert, supra note 45, at 376-78.
62. See Id. at 380.
infringement, courts have doubled or tripled the damage award and an accounting of profits.64

The Lanham Act further provides that the "court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee" in a trademark infringement case.65 Specifically, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party."66 Punitive damages and prejudgment interest are not available under the Act.67 However, because an award of prejudgment interest is within the discretion of the court, the Sixth and Seventh Circuits have awarded interest in exceptional cases.68

Two monetary remedies, an accounting of profits and attorney's fees, have specific recovery requirements. However, the federal circuits split on the appropriate recovery requirement for an accounting of profits.

4. An Accounting of Profits

Traditionally, courts award an accounting of profits "as a way of compensating the plaintiff for sales lost to the infringer."69 Although defendant's profits "are a rough measure of the plaintiff's damages...[t]hey are probably the best possible measure of damages available."70 The courts have adopted three rationales justifying the award of an accounting of profits: "(1) as a measure of plaintiff's damages; (2) if the infringer is unjustly enriched; or (3) if necessary to deter a willful infringer from doing so again."71 An accounting of profits has "historic roots in equity jurisprudence" and is within the equitable discretion of the courts.72 Therefore, a court may refuse to award defendant's profits if it believes that an injunction is a sufficient remedy.73

64. See Bussert, supra note 45, at 380. See, e.g., International Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A., Inc., 146 F.3d 66, 72 (2d Cir. 1998) (holding that the court "has discretion to fashion an alternative remedy, or award only a partial accounting, if the aims of equity would be better served.")
66. Id. § 1117(a). See attorney's fees discussion infra Part II.5.
67. See Bussert, supra note 45, at 388-89. See also Brown, supra note 43, at 76.
70. Id. at 30-99 (quoting Polo Fashions, Inc. v. Crafttex, Inc., 816 F.2d 145, 149 (4th Cir. 1987)).
71. Id.
72. Id. at 30-100.
73. Id.
In 1916, the Supreme Court in *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.* first acknowledged that an accounting of profits was an acceptable award for a plaintiff in a trademark infringement suit. In 1947, in *Champion Spark Plug Co. v. Sanders*, the Supreme Court limited the *Hamilton-Brown* decision. The *Champion* Court held that an accounting of profits is not automatic; the infringer must be guilty of "fraud or palming-off." Therefore, counsel may cite the *Champion* decision for the proposition that egregious conduct or intent must be present for a court to award an accounting of profits.

Federal judicial circuits disagree on whether an award of a defendant's profits to the plaintiff in a trademark infringement case requires a finding of bad faith or willfulness by the defendant. Differing views of whether an accounting of profits remedies unjust enrichment or penalizes bad actions might explain the split among the circuits. Some circuits, including the Tenth Circuit, have held that an award for profits remedies the defendant's unjust enrichment from willful infringement. The Tenth Circuit adopted the theory of unjust enrichment as the Circuit's recognized rationale for awarding profits to a plaintiff who cannot demonstrate actual damages as a result of trademark infringement. Other circuits, including the Second Circuit, have awarded defendant's profits where there was willful infringement but no unjust enrichment. Finally, the Seventh Circuit has awarded an accounting of profits based on "either a deterrence or unjust enrichment theory" despite the defendant's allegedly innocent infringement.

5. Attorney's Fees in Exceptional Cases

In 1975, Congress amended the Lanham Act to include a provision that "[t]he court in exceptional cases may award reasonable attorney's fees to the prevailing party." The Senate Committee on the Judiciary

74. 240 U.S. 251 (1916).
75. *Hamilton-Brown*, 240 U.S. at 259 (holding that a plaintiff suffering trademark infringement "is entitled to the profits acquired by defendant from the manifestly infringing sales . . . .").
76. 331 U.S. 125 (1947).
77. *Champion*, 331 U.S. at 131; see also *McCarthy on Trademarks*, supra note 69, § 30:61, at 30-100.2.
78. See Bussert, supra note 45, at 370-71. See discussion infra Part I.C.
79. See Bussert, supra note 45, at 371.
80. See Blue Bell Co. v. Frontier Refining Co., 213 F.2d 354, 363 (10th Cir. 1954) "[A] trademark infringer is liable as a trustee for profits accruing from his illegal acts . . . . Recovery is predicated upon the equitable principle of unjust enrichment, not the legal theory of provable damages." *Id.*
81. See Blue Bell, 213 F.2d at 363.
defined "exceptional cases" as including those in which the "infringe-
ment can be characterized as 'malicious,' 'fraudulent,' 'deliberate,' or
'willful.' The use of the word "court" in the aforementioned amend-
ment to the Lanham Act has been held to mean "judge," and that the
jury's role is merely advisory.

After the 1975 amendment, courts have consistently awarded attor-
ney's fees in cases of intentional, deliberate, or willful infringement. However, because the courts have great discretion in an award of attor-
ney's fees, they "have not elaborated the criteria for an 'exceptional' case with precision." The Tenth Circuit reversed an award for attorney's fees when the plaintiff failed to prove defendant's intent to confuse the public or to willfully infringe on plaintiff's mark. Accordingly, the Tenth Cir-
cuit uses "the phrase 'bad faith' to characterize the kind of misconduct that justifies an award of fees." Courts have held that a defendant's reliance on the advice of coun-
sel may affect the award of attorney's fees. If a party reasonably relies on advice of counsel, a case might no longer fall within the "exceptional case" provision for attorney's fees. However, the defendant must offer proof of counsel's advice and evidence of defendant's reasonable reliance on this advice to "defuse" otherwise willful and deliberate conduct. Finally, an award of attorney's fees does not depend on the availability of other remedies under the Lanham Act and "should not make a case per se 'unexceptional.'" However, the Tenth Circuit con-

87See McCarthy on Trademarks, supra note 69, § 30:100, at 30-168 to 30-169. See Quaker State Oil Refining Corp. v. Kooltone, Inc. 649 F.2d 94, 95 (2d Cir. 1981) (holding that a jury finding of "deliberate and willful" infringement was sufficient for an award of attorney's fees); Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l., 951 F.2d 684, 696 (5th Cir. 1992) (noting that the trial court judge has discretion to determine whether a case is "exceptional"); Committee for Idaho's High Desert, Inc. v. Yost, 92 F.3d 814, 825 (9th Cir. 1996) (holding that attorney's fees were appropriate because the district court found that the appellants "knowingly, intentionally, and deliberately" infringed).
88 Bussert, supra note 45, at 384.
89See VIP Foods, Inc. v. Vulcan Pet, Inc., 675 F.2d 1106, 1107 (10th Cir. 1982).
90See McCarthy on Trademarks, supra note 69, § 30:100, at 30-170. See TakeCare Corp. v. Takecare of Oklahoma, Inc., 889 F.2d 955, 957 (10th Cir. 1989) (noting that the case law that has developed around an "award of attorney's fees [includes] the implicit recognition that some degree of bad faith fuels the infringement at issue."); see also Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526, 556 (9th Cir. 1998) (recognizing that an award of attorney's fees required a "high degree of culpability" such as "bad faith or fraud").
91See Bussert, supra note 45, at 385.
92See McCarthy on Trademarks, supra note 69, § 30:100, at 30-171.
93See TakeCare, 889 F.2d at 957-58 (affirming an award for attorney's fees because defendant failed to present the advice provided by its counsel or reasonable reliance thereon).
94Bussert, supra note 45, at 386.
siders the lack of damages as a factor weighing against the award of attorney’s fees.95

B. Tenth Circuit

During the survey period, the Tenth Circuit in Bishop v. Equinox Int’l Corp.,96 examined issues surrounding awards of accounting fees and of an accounting of profits for trademark infringement. Specifically, the Bishop court evaluated the Tenth Circuit’s adherence to the bad faith requirement for an award of an accounting of profits.97 The court also evaluated whether the trademark infringement at issue constituted an exceptional case for an award of attorney’s fees.98

1. Facts

The Tenth Circuit reviewed a trademark infringement case brought by James S. Bishop ("Bishop") against Equinox International Corporation ("Equinox").99 Bishop was selling a mineral electrolyte solution under the name "Essence of Life," which is a registered trademark with the United States Patent and Trademark Office.100 Equinox was marketing a dietary supplement, "Equinox Master Formula Essence of Life Liquid Mineral Complex."101 In 1995, Bishop discovered Equinox’s product and informed Equinox that it was infringing on his registered trademark.102 Bishop requested that Equinox discontinue its use of the mark.103 Subsequently, Equinox’s counsel replied in writing that Equinox would replace the phrase "Essence of Life" on its product.104

Equinox continued to use the mark and Bishop consequently filed suit for an injunction, an accounting of profits, and attorney fees.105 The district court granted a permanent injunction for the trademark infringement, but denied monetary awards based on a lack of actual damages.106 However, the district court did award attorney’s fees based on Equinox’s disregard of its assurances to Bishop that it would change the name of its product.107

95. See VIP Foods, Inc. v. Vulcan Pet, Inc., 675 F.2d 1106, 1107 (10th Cir. 1982).
96. 154 F.3d 1220 (10th Cir. 1998).
98. See id. at 1224.
99. See id. at 1221.
100. See id.
101. Id.
102. See id.
103. Bishop, 154 F.3d at 1221.
104. See id.
105. See id.
106. See id.
107. See id. As a threshold matter, Equinox claimed Bishop had not used his mark for three consecutive years and, therefore, had abandoned his mark. See id. The district court held that Bishop’s sales of ninety-eight bottles of his product per year constituted adequate use of the mark.
2. Decision

a. An Accounting of Profits

The Tenth Circuit reversed the district court's holding that, because he failed to prove actual damages, Bishop was not entitled to defendant's profits. The court acknowledged that equitable considerations determine an award of an accounting of profits and that the unavailability of actual damages does not preclude such an award. The court embraced unjust enrichment as the Tenth Circuit's rationale for awarding defendant's profits. Consequently, the court recognized that actual damage is a factor to consider but is not essential in awarding defendant's profits. Additionally, the court held that "a showing that defendant's actions were willful or in bad faith" is essential for an award of an accounting of profits. The court reasoned that the bad faith requirement is reasonable because an accounting of profits might create a windfall judgment by overcompensating the plaintiff. The court remanded the issue because the court could not determine with certainty whether applying the correct legal standard would create an identical award as the district court.

b. Attorney's Fees

In Bishop, the Tenth Circuit held that, under the Lanham Act, the prevailing party may recover attorney's fees in "exceptional cases." The court noted the Senate Committee's definition of an exceptional case as "'malicious,' 'fraudulent,' 'deliberate,' or 'willful' " infringement. Finally, the court noted that absence of actual damages does not preclude

---

See id. at 1221-22. Therefore, the appellate court affirmed the district court's ruling that Bishop had not abandoned his mark. See id.
108. See id. at 1221.
109. See id. at 1222.
110. See id. at 1223. The court recognized the two rationales for awarding an accounting of defendant's profits— "preventing unjust enrichment and deterring willful infringement"—but confirmed unjust enrichment as the Tenth Circuit's approach. Id. (citing Blue Bell Co. v. Frontier Refining Co., 213 F.2d 354 (10th Cir. 1954)).
111. See id.
112. Id.
113. See id.
114. See id. at 1223-24. The Tenth Circuit acknowledged that the district court's finding that Equinox's disregard of its attorney's assurance that it would refrain from infringing on Bishop's trademark constituted a deliberate or willful infringement. See id. at 1223. Additionally, the court noted that Bishop's economic weakness might have motivated Equinox's action. See id. at 1224. However, the court determined that the district court should reconsider these issues using the correct legal standard. See id.
115. Id. at 1224 (using the abuse of discretion standard of review).
116. Id. (quoting VIP Foods, Inc. v. Vulcan Pet, Inc., 675 F.2d 1106, 1107 (10th Cir. 1982)).
an award of attorney's fees, but is a factor in determining whether a case is exceptional.\textsuperscript{117}

Failing to find a clear error, the Tenth Circuit affirmed the district court's award of attorney's fees.\textsuperscript{118} The court found that Equinox deliberately and willfully infringed because it continued to use the "Essence of Life" mark after its written commitment to cease and desist from using the mark.\textsuperscript{119} The court did not question the district court's incredulity toward Equinox's assertion that it had reasonably believed that Bishop had abandoned its mark.\textsuperscript{120} Instead, the court agreed that Equinox's continued use of the mark was rooted in its belief that Bishop's relative economic weakness would prevent him from further asserting his rights in the mark.\textsuperscript{121} The Tenth Circuit acknowledged the district court's discretion to fashion an equitable remedy and affirmed the award of attorney's fees.\textsuperscript{122}

C. Other Circuits

As evidenced above, the Tenth Circuit requires a finding of bad faith and willful infringement for an award of defendant's profits and attorney's fees for trademark infringement. However, not all federal circuits follow the Tenth Circuit's requirements to award defendant's profits. Federal judicial circuits split on whether an award of an accounting of profits to the plaintiff in a trademark infringement case requires a finding of bad faith or willfulness by the defendant.\textsuperscript{123} The D.C., Second, Sixth, and Tenth Circuits require the defendant to have willfully infringed on the plaintiff's trademark in bad faith for an award of defendant's profits.\textsuperscript{124} In contrast, the Seventh and Eleventh Circuits have abandoned the bad faith requirement for awarding an accounting of profits.\textsuperscript{125} The Ninth Circuit has noted that the willful infringement requirement might

\textsuperscript{117} See id.
\textsuperscript{118} See id.
\textsuperscript{119} See id.
\textsuperscript{120} See id. If Bishop had abandoned, or ceased to use, his mark, Equinox could have asserted abandonment as a viable defense to trademark infringement. See 15 U.S.C. § 1115(b)(2) (1994).
\textsuperscript{121} See Bishop, at 1224.
\textsuperscript{122} See id.
\textsuperscript{123} See Busser, supra note 45, at 370.
\textsuperscript{124} See International Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A. Inc., 80 F.3d 749, 753 (2d Cir. 1996); Reader's Digest Ass'n v. Conservative Digest, Inc. 821 F.2d 800, 807-08 (D.C. Cir. 1987); Nalpac Ltd. v. Corning Glass Works, 784 F.2d 752, 755 (6th Cir. 1986); Blue Bell Co. v. Frontier Refining Co., 213 F.2d 354, 363 (10th Cir. 1954).
\textsuperscript{125} See Roulo v. Russ Berrie & Co., 886 F.2d 931, 941 (7th Cir. 1989) (holding that the Lanham Act provides for an awarding of profits, which is in the discretion and equitable consideration of the court); Louis Vuitton S.A. v. Lee, 875 F.2d 584, 588-89 (7th Cir. 1989) ("[The principles of equity referred to in section 1117(a) do not in our view justify withholding all monetary relief from the victim of a trademark infringement merely because the infringement was innocent."); Burger King Corp. v. Mason, 855 F.2d 779, 781 (11th Cir. 1988) ("Nor is an award of profits based on either unjust enrichment or deterrence dependent upon a higher showing of culpability on the part of the defendant, who is purposely using the trademark.".).
be inappropriate in some circumstances. Finally, the Fifth Circuit employs a compromise approach, evaluating a finding of bad faith or willfulness as a factor rather than a requirement.

For an award of attorney's fees, the Tenth Circuit followed the common interpretation of the Lanham Act's "exceptional cases" requirement, which allows reasonable attorney's fees when infringement was "malicious, fraudulent, deliberate, or willful." Although the court did not articulate precise criteria for "exceptional cases," it seemed to agree that a showing of bad faith warranted the award of attorney fees. This view affirms past Tenth Circuit decisions and is supported by the Fifth and Eighth Circuits.

D. Analysis

By enforcing the bad faith requirement, the Bishop court consistently follows previous Tenth Circuit decisions, the majority of federal circuits, the Restatement (Third) of Unfair Competition, and the Supreme Court's guidance. Resolutely adopting the bad faith requirement, the Bishop court stated that "[r]equiring a showing of willfulness before profits are awarded is an appropriate limitation in light of the equitable considerations underlying the monetary recovery provisions of the Lanham Act."

126. See Adray v. Adry-Mart, Inc., 76 F.3d 984, 988 (9th Cir. 1995) ("An instruction that willful infringement is a prerequisite to an award of defendant's profits may be an error in some circumstances (as when plaintiff seeks the defendant's profits as a measure of his own damage.").
127. See Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526, 554 (5th Cir. 1998).
128. Bussert, supra note 45, at 383. See also McCarthy on Trademarks, supra note 69, § 30:99, at 30-166.
129. See Bishop v. Equinox Int'l Corp., 154 F.3d 1220, 1224 (10th Cir. 1998) (affirming the district court's finding that Equinox's infringement was "deliberate or willful" because Equinox continued using the "Essence of Life" mark based on Bishop's economic weakness).
130. See Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526, 556 (5th Cir. 1998); Aromatique, Inc. v. Gold Seal, Inc., 28 F.3d 863, 877 (8th Cir. 1994); TakeCare Corp. v. Takecare of Oklahoma, Inc., 889 F.2d 955, 957 (10th Cir. 1989).
131. See Champion Spark Plug Co. v. Sanders, 331 U.S. 125, 131 (1947) (refusing to award an accounting of profits because plaintiff failed to show fraud or palming off); Hamilton-Brown Shoe Co. v. Wolf Bros. & Co., 240 U.S. 251, 259-62 (1916) (Although the Supreme Court has not offered clear-cut authority on the issue, the Court has treated bad faith at least as a factor in awarding defendant's profits); Blue Bell Co. v. Frontier Refining Co., 213 F.2d 354, 363 (10th Cir. 1954) ("[A] trade-mark infringer is liable as a trustee for profits accruing from his illegal acts. . . . Recovery is predicated upon the equitable principle of unjust enrichment, not the legal theory of provable damages."); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 37(1)(a) (1995) (An award of profits is contingent on demonstrating that "the actor engaged in the conduct with the intention of causing confusion or deception."); Eugene W. Luciani, Does the Bad Faith Requirement in Accounting of Profits Damages Make Economic Sense?, 6 J. Intell. Prop. L. 69, 69 (1998) ("[A] majority of the circuits require a finding of bad faith before awarding an accounting of profits.").
132. See Bishop, 154 F.3d at 1223 ("[W]e are mindful that an award of profits requires a showing that defendant's actions were willful or in bad faith.").
Some scholars criticize the Tenth Circuit's adherence to the bad faith requirement. The critics argue that the bad faith requirement will cause over-deterrence "in the realm of product configuration and descriptive work marks." For example, a company that adopts a mark with a "borderline descriptive word" might deter other companies within the market from using the same word to describe their products, even though that word "is essential to the marketing of the good." Consequently, critics claim that this over-deterrence would effectively grant the trademark owner a "back door" patent on certain product configurations.

One possible response to such concerns is to adopt the analysis applied by the Fifth Circuit in trademark infringement cases, which evaluates a finding of bad faith or willfulness as a factor rather than as a required element. The Fifth Circuit balances the following factors:

(1) whether the defendant had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in making the misconduct unprofitable, and (6) whether it is a case of palming off.

Because the Fifth Circuit's balancing approach retains the infringer's willfulness as a factor in its analysis, the Circuit's approach is an intermediary step to fully dispensing with the bad faith requirement.

In any event, the critics' concerns regarding over-deterrence would not affect the Bishop decision. Bishop's "Essence of Life" trademark would probably be characterized as suggestive or arbitrary and fanciful, not as descriptive. Therefore, this particular mark would not overly deter other companies in the electrolyte solution market from marketing a certain product configuration. Because the danger of over-deterrence only occurs when a "borderline descriptive mark" is at issue, the Bishop Court's adherence to the bad faith requirement does not grant unwarranted patent protection. Additionally, the bad faith requirement

133. See Luciani, supra note 131, at 93.
134. Id.
135. Id.
136. Id. A "back-door" patent refers to protection equivalent to a registered patent but that is not obtained through a patent filed with the Patent and Trademark Office.
137. Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526, 554 (5th Cir. 1998). "Palm off" is defined as "the conduct of selling goods as the goods of another or doing business as the business of another such that the public is misled by the conduct and believes it is purchasing the goods or doing business with someone other than the actual seller." BLACK'S LAW DICTIONARY 1110 (6th ed. 1990).
138. See Pebble Beach, 155 F.3d at 554-55.
139. See discussion supra Part I.B.
140. Luciani, supra note 131, at 93.
provides a threshold for recovery that protects against a windfall judg-
ment that might overcompensate an undeserving plaintiff.\footnote{4}

Because the Senate Committee defined an “exceptional case” as
“‘malicious,’ ‘fraudulent,’ ‘deliberate,’ and ‘willful’” infringement, an
award of attorney’s fees is interconnected with the bad faith requirement
of an accounting of profits.\footnote{4} By performing one test, whether the in-
fringer acted willfully and in bad faith, the court can determine whether
to award two types of damages: an accounting of profits and attorney’s
fees.\footnote{4} Consequently, adhering to the willfulness requirement encourages
court consistency and efficiency.

II. THE FEDERAL PATENT SCHEME AND STATE LAW

To protect corporate clients’ intellectual property rights further,
counsel must also attend to federal patent laws that provide exclusive
control over an inventor’s scientific creativity. These federal patent
rights may conflict with state licensing rights because of broad federal
preemption of state law. However, counsel may use carefully carved out
exemptions to the preemption doctrine to draft competent licensing con-
tracts.

The United States Constitution grants Congress the power “To pro-
mote 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.”\footnote{4} Utilizing this grant of authority, federal
patent laws protect copyrighted works and patented discoveries from
unauthorized copying for a limited period. During this period, “to en-
courage people to devote themselves to intellectual and artistic creation,
Congress may guarantee to authors and inventors a reward in the form of
control over the sale or commercial use of copies of their works.”\footnote{4}
The public retains a general right to “copy” unpatented subject matter, as well
as previously protected subject matter after the patent expires.\footnote{4} The fed-
eral patent scheme protects “free access to copy whatever the federal
patent and copyright laws leave in the public domain.”\footnote{4}

Congress intended the Patent and Copyright Clause of the Constitu-
tion to provide a federal system of protection.\footnote{4} In 1964, the Supreme
Court in \textit{Sears, Roebuck \& Co. v. Stiffel Co.}\footnote{4} and \textit{Compco Corp. v. Day-}

\begin{thebibliography}{99}
\footnotesize
\item 141. See Bishop, 154 F.3d at 1223.
\item 142. Id. at 1224.
\item 143. See id. at 1223-1224.
\item 144. U.S. Const. art. I, § 8, cl. 8.
\item 148. See Goldstein, 412 U.S. at 555-56.
\item 149. 376 U.S. 225 (1964).
\end{thebibliography}
Brite Lighting, Inc.\textsuperscript{150} established that federal patent law preempts state laws that regulate unpatented subject matter.\textsuperscript{151} A state law, "whether common law or statute, will be preempted where it frustrates the underlying congressional objectives of . . . the Patent Act . . ."\textsuperscript{152} However, since 1964, the Supreme Court has carved out significant exceptions to the broad federal preemption doctrine, creating a "patchwork approach" to federal patent law and its interaction with state law.\textsuperscript{153} Federal courts have wrestled with this approach in their individual attempts to determine the viability and reach of state's intellectual property laws. The Tenth Circuit considered this problem in Naimie v. Cytozyme Laboratories, Inc.\textsuperscript{154}

A. Background

In its Sears and Compco decisions, the Supreme Court recognized three policy objectives for enforcing federal patent laws: "promoting invention, preserving free competition, and having national uniformity in patent and copyright laws."\textsuperscript{155} The Supreme Court has explained that "the question of whether federal law pre-empts state law 'involves a consideration of whether that [state] law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.'"\textsuperscript{156} In Kewanee Oil Co. v. Bicron Corp.\textsuperscript{157} and Aronson v. Quick Point Pencil Co.,\textsuperscript{158} the Court carved out significant exceptions to the federal patent preemption doctrine.\textsuperscript{159} In these cases, the Court permitted state regulation because the respective laws did not interfere with patent policy objectives.\textsuperscript{160}

The Kewanee Oil Court evaluated whether Ohio's trade secret laws stood as "an obstacle to the accomplishment and execution" of congressional policy objectives.\textsuperscript{161} The state law in controversy granted protec-

\begin{itemize}
\item \textsuperscript{150} 376 U.S. 234 (1964).
\item \textsuperscript{151} Sears, 376 U.S. at 231-33 (holding that an Illinois state law could not prohibit the copying of an unpatented floor lamp design nor could the law award damages for copying of the lamp); Compco, 376 U.S. at 239 (holding that Illinois law regulating unpatented subject matter was limited solely to measures that would prevent consumer confusion).
\item \textsuperscript{153} Wong, supra note 146, at 581-82.
\item \textsuperscript{154} 174 F.3d 1104 (10th Cir. 1999).
\item \textsuperscript{156} Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1979).
\item \textsuperscript{157} 416 U.S. 470 (1974).
\item \textsuperscript{158} Aronson, 440 U.S. 257.
\item \textsuperscript{159} See Gutowski, supra note 155, at 145-146.
\item \textsuperscript{160} See id.
\item \textsuperscript{161} Kewanee Oil, 416 U.S. at 479.
\end{itemize}
tion to an unpatentable manufacturing process. Nevertheless, the Court held that state trade secret laws do not hinder the incentive to invent, inhibit full disclosure of inventions, or remove subject matter from the public domain. Finding that state trade secret law does not compromise congressional policy objectives, the Court held that federal patent law does not preempt state trade secret laws.

In Aronson, the Supreme Court further limited the Sears-Compco doctrine with respect to state contract law. In cases of patent infringement, "the patent owner is entitled to recover the profits he would have earned on the patented product but for the infringement." As a minimum, the patentee is entitled to the calculation of a reasonable royalty "for the unlawful manufacture, use or sale of the patented product by the infringer."

The Aronson Court evaluated whether federal patent law preempted "a contract to pay royalties to a patent applicant, on sales of articles embodying [patentable subject matter] ..." Although the contract related to intellectual property, the Court reasoned that commercial agreements, which were traditionally "the domain of state law," could not be displaced merely because of their intellectual property nature. Thus, royalty agreements that do not interfere with federal patent objectives are enforceable. Although the Supreme Court had previously held that

---

162. See id. at 473-74. Kewanee Oil was a "manufacturer of a type of synthetic crystal which is useful in the detection of ionizing radiation." Id. at 473. Because the processes by which it had manufactured this crystal had been in commercial use for over a year, they were not eligible for patent protection. See id. at 474.

163. See id. at 490-491. Even were an inventor to keep his discovery completely to himself, something that neither the patent nor trade secret laws forbid, there is a high probability that it will be soon independently developed. If the invention, though still a trade secret, is put into public use, the competition is alerted to the existence of the inventor’s solution to the problem and may be encouraged to make an extra effort to independently find the solution thus known to be possible. . . . We conclude that the extension of trade secret protection to clearly patentable inventions does not conflict with the patent policy of disclosure.

Id.

164. See id. at 493.


167. Frank, supra note 165, at 290.


169. Id. at 262.

170. See id. at 262-63. The Court reasoned that the contract was enforceable because Congressional patent law objectives were not frustrated: (1) "enforceable agreements licensing the use of [inventor’s] inventions in return for royalties provides an additional incentive to invention";
enforcing contractual obligations to pay royalties in return for the use of a patented device may not extend beyond the life of the patent,\textsuperscript{7} the Aronson Court enforced a contract to pay reduced royalties to a patent applicant even though the patent grant was pending.\textsuperscript{172} The Court reasoned that enforcing the "contract would not 'withdraw any idea from the public domain' because the contract induced the creator to disclose her idea in the first place."\textsuperscript{173}

In Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,\textsuperscript{174} the Supreme Court returned to the Sears-Compco doctrine to clarify the "Court's patchwork approach to state regulation of intellectual properties."\textsuperscript{175} The Court reaffirmed the Sears-Compco preemption doctrine stating that "state regulation of intellectual property must yield to the extent that it clashes with the balance struck by Congress in our patent laws."\textsuperscript{176} The Court struck down a state statute on unfair competition that effectively granted patent protection to an unpatentable manufacturing process.\textsuperscript{177} However, the court distinguished Bonito Boats from Kewanee finding that the state statute at issue hindered the policy goals of the federal patent scheme.\textsuperscript{178} Consequently, the Bonito Boats Court said that the Court would strike down statutes that "restrict the public's ability to exploit ideas that the patent system mandates shall be free for all to use."\textsuperscript{179}

B. Tenth Circuit

On April 8, 1999, the Tenth Circuit reviewed a breach of contract case involving a patent royalties licensing agreement in Naimie v. Cytozyme Labs., Inc.\textsuperscript{180} The court examined the issue of whether state contract law or federal patent law governs the parties' rights to license chemical formulations in exchange for royalties. In this context the court evaluated

\(\text{(2) the manufacture of the inventions provides disclosure of the inventions; and (3) the manufacture and sale of the inventions assures the design remains in the public domain for the free use of the public.} \)\textsuperscript{171} 

\textsuperscript{172} Aronson, 440 U.S. at 267.
\textsuperscript{173} Wong, supra note 146, at 586 (quoting Aronson, 440 U.S. at 263).
\textsuperscript{174} 489 U.S. 141 (1989).
\textsuperscript{175} Wong, supra note 146, at 582 (citing Bonito Boats, 489 U.S. at 152).
\textsuperscript{176} Bonito Boats, 489 U.S. at 152.
\textsuperscript{177} See id. at 168. The Florida statute prohibited the use of a "direct molding process to duplicate unpatented boat hulls." Id. at 144. The plaintiff did not file a patent application to protect utilitarian or design aspects of the boat hulls. See id.
\textsuperscript{178} See Gutowski, supra note 155, at 146. The Court reasoned that "[t]he Florida statute is aimed directly at the promotion of intellectual creation by substantially restricting the public's ability to exploit ideas that the patent system mandates shall be free for all to use. . . . The Florida law substantially restricts the public's ability to exploit an unpatented design in general circulation." Bonito Boats, 489 U.S. at 167.
\textsuperscript{179} Gutowski, supra note 155, at 146. See Bonito Boats, 489 U.S. at 167.
\textsuperscript{180} 174 F.3d 1104, 1108 (10th Cir. 1999).
whether the licensing agreement, formed under state law, undermined the purposes and objectives of the federal patent scheme.

1. Facts

The Tenth Circuit reviewed an appeal by Cytozyme Laboratories, Inc., ("Cytozyme") from a judgment awarding Dr. Naimie ("Naimie") damages for breach of contract.\(^{181}\) Cytozyme, a manufacturer of nutritional plant and animal growth enhancement products, invited Naimie, a chemical engineer, to develop new formulations for its products.\(^{182}\) In January 1981, Cytozyme offered to pay Naimie "royalties in exchange for the transfer of 'a new technology base' to be developed by Dr. Naimie."\(^{183}\) Naimie accepted and on September 28, 1981, Cytozyme confirmed the agreement to pay royalties to Naimie on Cytozyme's completed products that used Naimie’s formulations.\(^{184}\) Naimie continued developing formulations and began receiving royalty payments in November 1981.\(^{185}\)

The parties formed a second agreement on May 28, 1985 hiring Naimie as a full-time consultant at $60,000 salary for seven years, plus travel expenses and royalties on his formulations.\(^{186}\) In October 1990, Cytozyme terminated Naimie and stopped making royalty payments.\(^{187}\) On May 6, 1991, Naimie sent a letter to Cytozyme, terminating its license to use his formulations.\(^{188}\) Cytozyme continued using Naimie’s formulations and Naimie filed suit for breach of contract and declaratory judgement.\(^{189}\)

The district court held that a verbal licensing agreement existed between the parties giving "Cytozyme the exclusive right to use [Naimie's] formulations in exchange for royalties on products using those formulations."\(^{190}\) Additionally, the court found that a written consulting agreement existed between the parties, employing Naimie as a full-time consultant at Cytozyme.\(^{191}\) Both the licensing agreement and the written agreement were "in full force and effect" at the time of Naimie’s termination.\(^{192}\) Therefore, the district court awarded Naimie unpaid fees for consulting services and unpaid royalties for the period between June

\(^{181}\) See Naimie, 174 F.3d at 1107.
\(^{182}\) See id. at 1107.
\(^{183}\) Id.
\(^{184}\) See id.
\(^{185}\) See id. at 1107-08.
\(^{186}\) See id. at 1108.
\(^{187}\) See id.
\(^{188}\) See id.
\(^{189}\) See id.
\(^{190}\) Id.
\(^{191}\) See id.
\(^{192}\) Id.
1990 and August 1996.\textsuperscript{193} Cytozyme appealed, arguing that "the district court's findings regarding ownership [of contract rights] create state patent rights—a result the Supreme Court prohibited in Bonito Boats...\textsuperscript{194}

2. Decision

The Tenth Circuit affirmed the award of royalties, holding that state contract law, not federal patent law, governed the parties' rights.\textsuperscript{195} The Tenth Circuit acknowledged that "states retain the power to 'adopt rules for the promotion of intellectual creation within their own jurisdictions' so long as those rules do not impermissibly interfere with the federal patent scheme."\textsuperscript{196} Applying the reasoning of Aronson, the Naimie court concluded that the parties' state licensing agreement did not undermine the federal patent scheme.\textsuperscript{197} First, the court agreed that enforcing licensing agreements fosters and rewards invention by providing an additional incentive to create.\textsuperscript{198} Second, the court reasoned that enforcing licensing agreements promotes disclosure of inventions because it "encourages the exploitation of an invention that might otherwise remain undeveloped and therefore inaccessible to the public."\textsuperscript{199} Nor does such an agreement impede the public from discovering "the formulations through reverse engineering or independent creation."\textsuperscript{200} Finally, the court reasoned that enforcing the licensing agreement would not remove ideas from the public domain because the formulations were not in the public domain before the parties formed the agreement.\textsuperscript{201} Therefore, the Naimie Court held that enforcing the licensing agreement would not conflict with the federal patent scheme and, therefore, awarded Naimie unpaid royalties.\textsuperscript{202}

C. Other Circuits

The Tenth Circuit's resolution of the conflict between state contract law and federal patent law is consistent with the Supreme Court and other federal circuit decisions. The Ninth Circuit has held that federal copyright and patent laws do not preempt protection of certain property

\textsuperscript{193} See id.
\textsuperscript{194} Id. at 1109 (citing Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 168 (1989)). Cytozyme also challenged the district court's findings that the second written agreement was not an integrated contract, that insufficient evidence existed to find a verbal licensing agreement, and that Naimie rescinded any license agreement he might have had. See id. at 1108.
\textsuperscript{195} See id. at 1110.
\textsuperscript{196} Id. at 1109 (quoting Bonito Boats, 489 U.S. at 165). See also Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1979) ("[T]he states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law.").
\textsuperscript{197} See Naimie, 174 F.3d at 1110.
\textsuperscript{198} See id.
\textsuperscript{199} Id.
\textsuperscript{200} Id.
\textsuperscript{201} See id. (citing Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 484 (1974)).
\textsuperscript{202} See id.
interests under California law. Because the particular property right encouraged innovation, was available to the public for reproduction, and was not “patent-like,” the Ninth Circuit found that there was no conflict of law. The Federal Circuit has held that federal patent law does not preempt state tort law involving intentional interference with actual and prospective contractual relations. The Federal Circuit reasoned that “the state law cause of action . . . does not present an ‘obstacle’ to the execution and accomplishment of the patent laws.” Exposing the limits of state law protection—when confronted with enforcing state contract law that would extend protection beyond the life of a patent—the Seventh and Eleventh Circuits have held that the federal patent scheme preempts state law. Nevertheless, because sufficient ambiguity exists in this area, Congress should adopt a uniform national standard.

D. Analysis

The Tenth Circuit’s decision follows the Supreme Court’s carefully carved out Aronson exception to the federal patent scheme for state contract law. However, a question arises as states dutifully follow this law: “[T]o what extent should the states be permitted to intervene in what is predominantly a federal sphere?” Arguably, Congress designed patent law to be strictly reserved to federal regulation in order to achieve a uniform national standard. However, the Supreme Court made the federal patent scheme vulnerable to inconsistency when it began to carve out exceptions to this federal power. In the 1989 Bonito Boats decision,

203. See G.S. Rasmussen & Assoc., Inc. v. Kalitta Flying Serv., Inc., 958 F.2d 896, 903-05 (9th Cir. 1992).
204. See Rasmussen, 958 F.2d at 905. The court held that the plaintiff had a property right in his Supplemental Type Certificate (STC), which was required by anyone who wished to make a major alteration to an airplane. See id. at 899, 905. The court further held that the property right did not conflict with federal patent law. See id. at 905. The court reasoned that (1) the STC itself disclosed the plaintiff’s research that would stimulate further innovation in the field of aeronautics, and (2) the right was not “patent like” because the plaintiff did not claim an “exclusive right to modify DC-8s as described in his STC.” Id.
205. See Dow Chemical Co. v. Exxon Corp., 139 F.3d 1470, 1477 (Fed. Cir. 1998).
206. Dow Chemical, 139 F.3d at 1475. The court indicated that the state’s tort law would not affect “the incentive to invent, the full disclosure of ideas, or the principle that ideas in the public domain remain in the public domain.” Id. Additionally, the court reasoned that the law’s purpose was to protect the integrity of commercial contracts, which, as the Aronson Court noted, were in the domain of the states. See id. (citing Aronson, 440 U.S. at 262).
207. See Meehan v. PPG Indus., Inc., 802 F.2d 881, 886 (7th Cir. 1986) (holding that a licensing agreement was unlawful because it extended the defendant’s monopoly power beyond the patent period); Pitney Bowes, Inc. v. Mestre, 701 F.2d 1365, 1373 (11th Cir. 1983) (holding that a licensing agreement was unenforceable because the terms “constituted an effort to extend payments for patent rights beyond the patent period.”). Both the Seventh Circuit and Eleventh Circuit decisions comply with the Supreme Court’s approach to the same issue in Brulotte v. Thys Co., 379 U.S. 29, 32-33 (1964). See discussion supra, Part I.
208. Wong, supra note 146, at 594.
209. See Id.
210. See Id.
coming a decade after the Aronson decision, "the Supreme Court . . . attempted to resolve conflicting decisions . . . regarding federal preemption of state laws regulating unpatented subject matter."\(^{211}\) The Court clearly stated that "the States may not offer patent-like protection to intellectual creations which would otherwise remain unprotected as a matter of federal law."\(^{212}\) Therefore, patent law should fall exclusively within the jurisdiction of the federal courts. Following the various contracts laws of fifty states fosters a piecemeal encroachment on federal law that will "compromise the uniformity inherent in one national standard and make notice to potential infringers more difficult."\(^{213}\) Notwithstanding the Supreme Court's push for change in 1989, the solution to this growing problem lies in encouraging a uniform body of law through Congress and the federal judiciary and in preserving the federal patent law scheme.\(^{214}\)

**CONCLUSION**

In the age of fast-paced technological breakthroughs, legal counsel advising corporate clients must be attentive to current intellectual property laws and the federal circuits' application of those laws. For trademark law, counsel should refer to the Lanham Act to determine the extent of protection available for business marks, the test used to determine trademark infringement, and the damages available for infringement. In the Tenth Circuit, counsel should note the limitations on the recovery of monetary damages for infringement, including those imposed upon an accounting of profits and attorney's fees. Although the federal circuits split on the requirements necessary for recovery, the Tenth Circuit requires the plaintiff to prove that the defendant acted willfully or in bad faith when the defendant infringed on the plaintiff's mark. If the plaintiff proves the defendant's willful infringement by a preponderance of the evidence, the Tenth Circuit, pursuant to its equitable discretion may award defendant's gross profits and attorney's fees. While critics question the bad faith requirement, counsel should note that the Tenth Circuit remains concerned about the defendant's unjust enrichment and believes the willfulness requirement will act as a deterrent.

Secondly, legal counsel should be attentive to patent protection granted by the Patent and Copyright Clause of the Constitution. Generally, this federal patent protection preempts state laws that obstruct the federal patent scheme to protect and encourage intellectual creativity and invention. However, the Supreme Court has carved out significant state law exceptions to the broad doctrine of federal preemption, creating a patchwork approach to patent protection. Counsel advising corporate clients should note that the Tenth Circuit has exempted from the federal

\(^{211}\) Wong, *supra* note 146, at 581.
\(^{213}\) *See* Wong, *supra* note 146, at 594.
\(^{214}\) *See id.* at 596.
patent scheme those state licensing agreements that do not extend the scope or time limits of federal patent protection. Therefore, when drafting licensing agreements regarding patent rights, counsel should consider the interplay between state contract law and federal patent law.

Kara L. Rossetti