THE X FACTOR: GOOD FAITH AND FAIR DEALING IN INTELLECTUAL PROPERTY

Adam C. Solomon*

I. INTRODUCTION

In a world where technology is evolving rapidly, and where Intellectual Property[1] law is trying to keep pace, sometimes fundamental legal concepts, such as those found in contract or tort law, are underutilized in favor of new and innovative IP legal doctrines. This Note contains an overview of one such fundamental legal concept, the covenant of good faith and fair dealing, and specifically addresses how this doctrine may be applied with more regularity to IP disputes. Context will be provided as to *when* the doctrines of good faith and fair dealing may arise, *who* is bound by these doctrines, and *what* are the obligations of those bound under these doctrines. Rationale will be provided as to why a working understanding of good faith and fair dealing will benefit litigants, the court, and the integrity of IP law in resolving IP disputes. Cases and examples will be cited showing proper application of the implied covenant of good faith and fair dealing. Moreover, cases will be cited where the covenant of good faith and fair dealing was not utilized in IP-related disputes, and arguments will be made as to why the covenant should have been applied. Conclusions will be drawn as to when the implied covenant of good faith and fair dealing should be used more regularly in IP-related disputes, and recommendations will be made to guide future application of this doctrine in IP contexts.

II. DEFINING GOOD FAITH AND FAIR DEALING

Section 205 of the Restatement (Second) of Contracts, provides:

> § 205 *Duty of Good Faith and Fair Dealing* Every contract imposes upon each party a duty of good faith and fair dealing in its performance and its enforcement.[2]

Comment *a.* to § 205 further elaborates upon the duty of good faith and fair dealing by making reference to the Uniform Commercial Code[3]. Section 2-103(b) of the U.C.C. provides, "(b) "Good Faith" in the case of a merchant means honesty in fact and the

---

* Mr. Solomon holds a B.S. in Aerospace Engineering from the State University of New York at Buffalo, and is currently pursuing Juris Doctor and Master of Intellectual Property degrees at Franklin Pierce Law Center.

1 Hereinafter "IP". IP law includes Patent, Trademark, Copyright, and Trade Secret law.

2 RESTATEMENT (SECOND) OF CONTRACTS § 205 (1979)

3 Hereinafter "UCC".

observance of reasonable commercial standards of fair dealing in the trade."[4] It is important to note early that the Restatement refers to good faith and fair dealing together as a single duty, whereas the UCC defines good faith in terms of fair dealing. However, although the UCC draws some distinctions between the two, courts and commentators frequently use the terms interchangeably, or together, as describing a singular doctrine in contract law.

After making reference to the UCC, comment *a* to § 205 of the Restatement goes on to provide:

> Good faith performance or enforcement of a contract emphasizes faithfulness to an agreed common purpose and consistency with the justified expectations of the other party; it excludes a variety of types of conduct characterized as involving "bad faith" because they violate community standards of decency, fairness or reasonableness.[5]

In addition, comment *d* to § 205 provides:

> *d. Good Faith performance.* Subterfuges and evasions violate the obligation of good faith in performance even though the actor believes his conduct to be justified. But the obligation goes further: bad faith may be overt or may consist of inaction, and fair dealing may require more than honesty.[6]

Many commentators have posited various interpretations of § 205, UCC §2-103(b), and of good faith and fair dealing in general.[7] The views of many of the commentators are best illustrated by the divergent views held by Robert Summers and Steven Burton.

Summers conceptualizes good faith as that which serves to exclude bad faith.[8] In this formulation, Summers opines that good faith takes on specific meanings by way of contrast with the forms of bad faith which judges decide to prohibit.[9] Intertwined with this "excluder" approach to good faith is Summers' belief that the doctrine of good faith has its basis in legal notions of justice and morality.[10] In this approach, a doctrine of good faith

---

4 UNIFORM COMMERCIAL CODE § 2-103(b) (1993)
5 RESTATEMENT (SECOND) OF CONTRACTS § 205, comment *a* (1979)
6 RESTATEMENT (SECOND) OF CONTRACTS § 205, comment *d* (1979)
7 *See, e.g.* Robert S. Summers, *The General Duty of Good Faith - Its Recognition and Conceptualization*, 67 CORNELL L. REV. 810 (1982), Steven J. Burton, *Breach of Contract and the Common Law Duty to Perform in Good Faith*, 94 HARV. L. REV. 369 (1980), E. Allan Farnsworth, *Good Faith Performance and Commercial Reasonableness Under the Uniform Commercial Code*, 30 U. CHI. L. REV. 666 (1963).
8 *See* Robert S. Summers, *"Good Faith" In General Contract Law and the Sales Provisions of the Uniform Commercial Code*, 54 VA. L. REV. 195 (1968), *See also* Summers, *The General Duty of Good Faith, supra* note 6.
9 Summers, *Good Faith, supra* note 7, at 202.
10 Summers, *The General Duty of Good Faith, supra* note 6, at 826.

based on legal principles is necessary to promote contractual transactions, since one does not normally contract with those they do not trust, and therefore a dependent party in a transaction will have to rely on the good faith performance of a party that has the power of discretion in the agreement.[11]

By contrast, Burton's interpretation of good faith is based on economic, rather than legal, considerations.[12] In Burton's formulation of good faith, a party fails to perform in good faith when that party uses its discretion to recapture forgone opportunities.[13] Burton elaborates upon the idea of "foregone opportunities" by providing that:

> The economic cost of any action - including the act of contracting, the act of performing, and the act of breaching a contract - should be viewed descriptively as the value of the next best opportunity necessarily foregone by taking that action.[14]

Therefore, in the Burton model of good faith, a party to a contract would not be acting in good faith if they are pursuing a course of action that was not provided for in the agreement between the parties, *and* is one that the parties could have contracted for had they known of this opportunity. In addition, Burton's formulation of the good faith performance doctrine enhances economic efficiency by reducing the costs of contracting.[15] In other words, instead of requiring that contracting parties spend great sums of time making up contractual clauses for every possible eventuality (a very costly endeavor), "[t]he good faith performance doctrine reduces... costs by allowing parties to rely on the law in place of incurring... these costs."[16]

Irrespective of which interpretation of the doctrine of good faith and fair dealing one subscribes to, most jurisdictions in the U.S. provide for a cause of action involving a breach of the implied doctrine of good faith and fair dealing. In looking at case law involving this doctrine, it does not appear that judges participate in some of the high-brow theorizing that Summers and Burton engage in, but rather, the doctrine of good faith and fair dealing is usually posited as follows:

---

11 Burton, *Breach of Contract, supra* note 6, at 392.
12 *See generally* Burton, *Breach of Contract, supra* note 6.
13 *Id.* at 378.
14 *Id.* at 375, citing P. SAMUELSON, ECONOMICS 474-75 (10th ed. 1976); Alchian, *Cost*, 3 INTERNATIONAL ENCYCLOPEDIA OF THE SOCIAL SCIENCES 404 (D. Sills ed. 1968).
15 *Id.* at 393.
16 *Id.*

> That in every contract there is an implied covenant that neither party shall do anything which will have the effect of destroying or injuring the right of the other party to receive the fruits of the contract, which means that in every contract there exists an implied covenant of good faith and fair dealing.[17]

Although it has been traditional for a breach of the implied covenant of good faith and fair dealing to sound in contract law, and provide for the accompanying remedies, there is a movement today towards recognizing a breach of this covenant as a tort in certain situations.[18] However, the trend in recognizing a tortious breach of this covenant appears to be limited to those relationships that contain some form of fiduciary relationship, or inequity of power.

Although the introduction of tort remedies into breaches of the covenant of good faith and fair dealing draws attention to *who* is involved in a contract, an equally important question is *when* does the doctrine of good faith and fair dealing arise. To this point, the doctrine has been discussed mostly in reference to good faith in performance of a contract. However, in evaluating the relationship between the covenant of good faith and fair dealing and IP, it would be helpful to determine when the doctrine has application to pre-contractual negotiations as well.[19]

It is well understood that most contractual duties, including the covenant of good faith and fair dealing, originate when one party tenders an offer and another party accepts the offer. However, in the context of pre-contractual negotiations, since there is no traditional offer and acceptance, alternative theories of liability must be explored.

The first theory involves the concept of unjust enrichment. Under this theory, a negotiating party must make restitution of benefits received during negotiations and ensures that "[a] negotiating party may not with impunity unjustly appropriate... benefits to its own use."[20] The principled underpinnings for this theory lies with the conceptualization that ideas disclosed during pre-contractual negotiations are the "property" of the discloser, and

---

[17] *Uproar Co. v. National Broadcasting Co.*, 81 F.2d 373, 376 (1st Cir. 1935), *cert. denied*, 298 U.S. 670, *quoting Kirk La Shelle Co. v. Paul Armstrong Co.*, 188 N.E. 163,164 (1933).

[18] *See* Mattew J. Barrett, *"Contort": Tortious Breach of the Implied Covenant of Good Faith and Fair Dealing in Noninsurance, Commercial Contracts -- Its Existance and Desirability*, 60 NOTRE DAME L. REV. 510 (1985), *See also Comunale v. Traders & General Insurance Co.*, 50 P.2d 654 (1958).

[19] For example, many times pre-contractual negotiations involve discussions of trade secrets and patents pending in order to assess the value of the potential deal.

[20] E. Allan Farnsworth, *Precontractual Liability and Preliminary Agreements: Fair Dealing and Failed Negotiations*, 87 COLUM. L. REV. 217,229 (1987)

if the ideas are misappropriated, the owner "has a right to damages in tort and perhaps a right to equitable relief."[21] Another basis for finding misappropriation may lie in the finding of a breach of a confidential relationship between the parties. However, most courts will not find such a confidential relationship exists in a pre-contractual situation merely because the parties are negotiating at arm's length.[22]

Once again, relating pre-contractual negotiations with IP law brings attention to the fact that

> [the misappropriation and breach-of-confidence theories for recovery have] been the traditional rationale when the idea is a trade secret. Although there are many ideas that do not qualify as trade secrets, some courts have found a property right in ideas that are "novel" and "concrete" regardless of whether they qualify as trade secrets.[23]

A second type of theory that may prove useful when trying to expand a good faith-like duty to precontractual negotiations is misrepresentation as a basis of liability. Under this theory, "[a] negotiating party may not with impunity fraudulently misrepresent its intention to come to terms. Such an assertion is one of fact -- of a state of mind -- and if fraudulent, it may be actionable in tort."[24]

A third theory for precontractual negotiations is a specific promise as a basis of liability. Under this theory, "a negotiating party may not with impunity break a promise made during negotiations if the other party relied on it."[25]

A final theory for expanding good faith duties to precontractual negotiations is a general obligation of good faith arising out of the negotiations themselves. However, in the U.S., courts are reluctant to adopt such a general obligation, since the U.C.C. and the Restatement of Contracts, by negative implication, do not extend the duty of good faith and fair dealing to negotiations.[26]

---

21 Farnsworth, *PrecontractualLiability*, *supra* note 20, at 230.

22 *Id.*

23 *Id.*, *See* Liggett & Meyers Tobacco Co. v. Meyer, 101 Ind. App. 420, 194 N.E. 206 (1935) (en banc). *See also* John W. Shaw Advertising, Inc. v. Ford Motor Co., 112 F. Supp. 121 (N.D. Ill. 1953); How J. Ryan & Assoc. v. Century Brewing Ass'n, 185 Wash. 600, 55 P.2d 1053 (1936).

24 Farnsworth, *PrecontractualLiability*, *supra* note 20, at 233, *se e*Restatement (Second) of Torts § 525, 530 (1977).

25 Farnsworth, *PrecontractualLiability*, *supra* note 20, at 235.

26 Farnsworth, *PrecontractualLiability*, *supra* note 20, at 239.

III. Application Of The Duty Of Good Faith And Fair Dealing

A. Pre-Contractual Negotiations

As noted previously, since the conventional duty of good faith and fair dealing does not extend to pre-contractual negotiations, alternative theories applying a good faith-like duty must be utilized. Irrespective of the type of tort or contract theory chosen to attain this duty, the first step in the good faith analysis is to examine the relationship between the parties, and to determine whether the characteristics of the relationship should give rise to some form of good faith duty. This focus on relationships between parties will become important in analyzing the focus cases below, since it appears that a pre-existing relationship between a plaintiff and defendant may lead to an outcome in a case that is different than a very similar case having parties with no pre-existing relationship.

In *Defiance Button Machine Co. v. C & C Metal Products Corp.*[27], the plaintiff's business fell into bankruptcy, and the plaintiff's assets were sold off at auction to the defendant without the plaintiff's trademark and good will. The defendant later attempted to purchase the plaintiff's mark, but the plaintiff refused the defendant's offer. The defendant later went into business in another state and used the plaintiff's trademark. The court found that the plaintiff never intended to abandon its trademark, and therefore the defendant was infringing the plaintiff's trademark.

By contrast, in *In re Corset Co.*[28], a business went bankrupt, and the assets were sold off at auction. In assessing whether the business' trademark could later be assigned to another party, the court opined that

> [t]he assignment... of the... trade-mark was made in May, 1910. In due course of time the trustee sold the goods and chattels of the bankrupt, but made no attempt to sell the good will of the bankrupt's business, nor the trade-mark; nor did he sell the business as a going concern. The effect of these proceedings by the trustee was to kill the good will and destroy the trade-mark; for it is admitted that this particular kind of trade-mark cannot pass, except in conjunction with the good will of a business.[29]

Similarly, in *Reconstruction Finance Corp. v. J.G. Menihan Corp.*[30], the plaintiff sold off assets of a business, and later attempted to assert trademark rights in the mark related to the business whose assets were sold off. The court similarly found that trademark

---

27 759 F.2d 1053 (2nd Cir. 1985).
28 201 F. 779 (S.D.N.Y. 1911).
29 201 F. 779 at 780.
30 28 F.Supp. 920 (W.D.N.Y. 1939).

rights do not exist in a vacuum, and therefore, the trademark ceased to exist upon termination of business under the mark.[31]

When contrasting the outcomes of *Defiance* against *In re Corsett* and *Reconstruction*, it is natural to ask what facts distinguished the first case from the others. If one examines the opinion in *Defiance*, the court there distinguishes *Defiance* from the other cases based on a party's intent or absence of intent to abandon its trademark.[32] However, one reading the court's opinion in *Defiance* does not come away from that case with a very clear and principled explanation why that case came out differently than the others. Although not mentioned in the court's opinion in *Defiance*, perhaps the nature of the relationship between the plaintiff and defendant made the court more likely to find for the plaintiff than the defendant.

It is known in the facts of *Defiance* that the defendant did not use the plaintiff's mark until after negotiations had failed between the parties on an assignment of the trademark. The question that must be asked is whether the fact that the two parties had previously negotiated on the sale of the mark and good-will affected the decision of the court. In other words, did the relationship between the parties create a *specific duty* upon the defendant not to use the mark, which the defendant later breached.

Since the two parties did engage in prior negotiations, it may be assumed that as part of the negotiating process, information relating to the strength of the mark passed between the parties. The defendant may have been privy to information about the mark that was not known by others. In addition, the defendant may have learned facts about the plaintiff, and the plaintiff's intent relating to the mark, that were exchanged as part of the negotiating process. By not reaching an agreement, and then subsequently using the mark anyway, the question must be asked whether the decision to later use the mark was based on knowledge obtained in confidence about the mark and the plaintiff during negotiations. If the defendant fraudulently misrepresented that they were interested in purchasing the mark, only as a ruse to discover information, then this type of misrepresentation may be actionable as a breach of a good faith-like duty. As mentioned previously, theories pertaining to unjust enrichment and breach of a confidential relationship may also be available as a means for the plaintiff to receive redress for their injuries.

This analysis pertaining to the relationship between the parties in the *Defiance* case is not intended as a way to supplant the conventional abandonment and intent to abandon theories that were used. However, it does raise the question of whether the trademark

---

31 *See also* Hough Manufacturing Corp. v. Virginia Metal Inductries Corp., 203 U.S.P.Q. 436 (E.D. Va. 1978)
32 759 F.2d at 1062. *See* 15 U.S.C. §1127 (1993).

owner's intent is really at issue, or is it the fact that the appropriator of the mark learned of information about the owner and the mark, and may be using that information later to their advantage. Many times a court recognizes at first blush that one party to a case is in the wrong, but then has to struggle to find a legal theory that will provide the other party proper recourse. Perhaps in future trademark abandonment cases of this nature, the court could examine if a prior relationship existed between the parties and if so, what effect, if any, did that relationship have on subsequent actions of the parties.

B. Contractual Performance

It is during contractual performance that the classical doctrine of good faith and fair dealing applies. In the case of *SAS Institute v. S&H Computer Systems*[33], the district court applied the doctrine of good faith and fair dealing in a case concerning copyright infringement and licensing issues. In this case, plaintiff SAS was the owner of a copyright on a computer program for performing statistical analysis. Although the computer program was only commercially available for IBM compatible computers, SAS was in the process of developing another version of the program for DEC VAX computers which had reached beta testing. SAS did not sell copies of its statistical software, but rather, they licensed copies of the software to their customers. A group of faculty members from Vanderbilt University were interested in using SAS, but the group did not have IBM-compatible computers to run SAS's software. The group did however have DEC VAX computers available to them. The group from Vanderbilt obtained a license from SAS to obtain technical information about SAS's software, and then hired S&H to develop statistical software for VAX computers using SAS's source code. Once S&H obtained the source code from SAS, S&H loaded the source code onto VAX computers, used editors to modify the source code, made printouts of the source code, and copied portions of the source code for their purposes. All of these uses of the source code by S&H were contrary to the license terms between SAS and the group from Vanderbilt.

In its decision, the district court judge found that S&H had infringed SAS's copyright on the software[34]. However, in addition to this finding, the district court judge also found that S&H had breached the covenant of good faith and fair dealing[35]. In reaching this decision, the district court judge quotes Nimmer on the unique relationship between a licensor and licensee:

---

33 225 USPQ 916 (M.D. Tenn. 1985)
34 225 USPQ at 930.
35 225 USPQ at 928.

> [A licensee violates the covenant of good faith and fair dealing] by creating a new work based upon the same idea, theme, or title, even if a stranger could create a new work with such idea, theme or title without infringing the grantor's copyright.[36]

This quote from Nimmer underscores the fact that a pre-existing relationship between two parties, such as a licensor-licensee, adds a new dynamic to conventional IP issues, since one must go beyond conventional IP law, and look at other causes of action. Once again, the covenant of good faith and fair dealing does not supplant the traditional copyright analysis, but rather, it adds another viable theory to the mix that may be relied upon by the judge if the traditional copyright cause of action is weak.

In *SAS Institute*, the district court judge found that by developing a software package that was to compete with SAS's software, using source code from SAS's own programs, S&H violated an implied covenant of good faith and fair dealing between SAS and S&H. Although S&H may not have had knowledge of SAS's beta testing of a VAX version of the software, the fact that they chose to develop a VAX version of the program resulted in potential harm to SAS with respect to the value of their copyrighted computer software. In other words, S&H attempted to use SAS's own source code to establish a foothold for S&H in the VAX market, thereby preventing SAS from realizing the full potential that their version of the program could achieve in the VAX market.

On a very superficial level, it would strike most people as underhanded if a company acquires a license from another company in order to use the acquired source code to beat the first company to a new market. Fortunately, the covenant of good faith and fair dealing provides for a remedy in such a situation. As to the form of this covenant of good faith and fair dealing, it is an *implied* covenant, and therefore must be determined on a case-by-case basis upon examination of the facts. In *SAS Institute*, the district court judge found that

> although it may be true... that S&H has never agreed, impliedly or expressly, not to produce a piece of statistical software designed to operate on VAX Computers, it did agree as a matter of law not to use proprietary SAS materials in the process, as it did. S&H's conduct cannot be said to comply with its legal duty of good faith and fair dealing.[37]

An examination of the district court judge's language above reiterates the fact that the covenant of good faith and fair dealing goes beyond express or implied language of a

---

[36] 225 USPQ at 927, *citing* 3 Nimmer on Copyright § 10.11[B] (1983).
[37] 225 USPQ at 928.

specific promise, but rather, looks at the totality of the situation, and whether reasonable parties would have agreed to certain limits of acceptable behavior during the performance of the contract. For example, if at the time the license was granted by SAS, S&H had asked SAS if they could use SAS's source code to develop a statistical program for the VAX, SAS would have refused. SAS, by the language of their license, did not want a licensee to use SAS's source code for any purpose beyond what SAS deemed as being necessary for the use of the program. Therefore, just because S&H did not ask SAS for permission to use the code, does not mean that S&H can later do that which would have been refused by SAS to begin with. The covenant of good faith and fair dealing prevents parties to an agreement from later taking advantage of each other. If SAS knew of S&H's intent, they could have bargained with S&H for a higher license fee, or refused the license altogether. Therefore, the law will penalize S&H for trying to recapture an opportunity that could, and should, have been negotiated for at the outset.

Even though *SAS Instiitute* is a district court case, it does seem to portray the covenant of good faith and fair dealing as a very useful cause of action in IP disputes among parties to a license. However, this is the only case when the attorneys for the plaintiff bring up this contract law cause of action for the court's consideration.

In *Whelan Associates v. Jaslow Dental Laboratory*[38], the court dealt with another software copyright infringement case involving licensees, but the issue of good faith and fair dealing was not presented at trial for consideration. In *Whelan*, Jaslow Dental Laboratory was looking for a computer program, that would run on their IBM Series One computer, to administer its bookkeeping and administrative tasks. Jaslow hired Whelan's company to write a computer program for Jaslow in order to handle these tasks, and when the program was complete, Whelan's company would be free to market this program with Jaslow getting a royalty. Whelan's program was called Dentalab, and was programmed in EDL (Event Driven Language), the programming language of the IBM Series One computer. Whelan later left her employer and went into business for herself writing computer programs. In a subsequent agreement between Whelan and Jaslow, Jaslow covenanted to diligently market Dentalab, while Whelan covenanted to improve and augment the Dentalab program.

After maintaining a two year working relationship, Jaslow decided that it would be prudent to port the Dentalab program to BASIC so that it could run on other computers. However, Jaslow decided to program the port himself, and without the knowledge of Whelan, who coincidentally was also porting Dentalab to a BASIC version. Jaslow's

38 797 F.2d 1222 (3rd Cir. 1986)

of good faith and fair dealing, it would have given the district court judge and the Court of Appeals an alternative route for finding for the plaintiff. Since a judge can only decide a case based on what causes of action are presented by the parties, in *Whelan,* if the courts were going to find for the plaintiff, then their only choice was to do so based on copyright infringement. One has to wonder that if there was another way to find for the plaintiff, then the courts may not have been forced to formulate this relatively new concept of copyright protection for the non-literal aspects of a computer program.

While both *SAS* and *Whelan* are both copyright cases, the application of the doctrine of good faith and fair dealing to parties during contractual performance has equal applicability in the fields of patents, trademarks, and trade secrets. There are few exceptions to the application of this doctrine in IP, most notably is the right of a patent-licensee to challenge the validity of the licensor/patentee's patent.

In *Lear v. Adkins*[40], the Supreme Court held that a patent-licensee was not estopped from attacking the validity of the patent that comprised the basis for his license from the licensor. In addition, the licensee was entitled to avoid payment of all royalties accruing after the patent issued if the licensee could prove invalidity of the patent. This decision was based on a policy decision that it is desirable to maintain a strong patent system in the U.S., and to that end, patents should be challenged in order to determine their true scope. The Supreme Court found that licensees should not be precluded from this power to challenge patents.

But for the Supreme Court's decision in *Lear,* it may be a breach of the covenant of good faith and fair dealing for a licensee to challenge the validity of the licensor's patent. This would be because since the parties have an agreement based on the patent, it would "destroy the fruits" of the agreement and prevent contractual performance if the licensee tried to invalidate the licensor's patent. In contrast, both copyright law and trademark law recognize that a licensee is estopped from challenging the validity of the underlying copyright or trademark, so this exception would not be present in those cases.

C. Post-Contractual Performance

As noted in Section B., the covenant of good faith and fair dealing is a very viable tool for use during contractual performance. However, the issue arises as to whether there are any good faith duties present between parties after contractual performance.

Since the covenant of good faith and fair dealing is an implied covenant that is associated with an agreement between parties, then the essential question is whether any

---

40 395 U.S. 653 (1969).

contractual covenants can survive after termination of a contract. There are certain situations where the contract may stipulate certain ongoing duties of the parties, but in that case, the contract is not truly dead, but rather still carries on in part.

In this situation, the examination focuses on whether two parties can be restricted from certain actions because they had a previous agreement on a certain matter. It helps this analysis to draw an analogy between the covenant of good faith and fair dealing and a restrictive covenant. Both of these doctrines prevent a party from doing something that they would legally be able to do, and for that reason, both doctrines undergo strict examination by the courts. Drawing out this analogy even further, if the covenant of good faith and fair dealing was allowed to stay in effect after the termination of a contract, then it would be as if an implied restrictive covenant was placed on a party. Since courts are very reluctant to enforce written and agreed upon restrictive covenants, then it stands to reason that courts would not be willing to enforce an implied restrictive covenant, or its equivalent. Therefore, it is very doubtful that a covenant of good faith or fair dealing would survive the full termination of an agreement.

However, there are certain types of agreements where performance and termination of the contractual duties are not clearly delineated. In these situations, the covenant of good faith and fair dealing may have application, since the contractual duties have not fully terminated.

For example, in the seminal case of *Gross v. Seligman*[41], the defendant was a photographer who posed a model for a photograph which he named "Grace of the Youth". The photographer then sold his photograph and the copyright to the plaintiff. Two years later, the defendant posed the same model, but this time with a smile on her face and a cherry stem between her teeth and called it "Cherry Ripe". The plaintiff sued the defendant for copyright infringement and won.

Whether or not the second photograph actually constituted copyright infringement was the issue addressed by the Court, but for the purpose of examining the possible application of the covenant of good faith and fair dealing, the agreement between the parties is worth analyzing. One could argue that the two parties struck an agreement wherein the photograph and copyright were exchanged for some form of consideration, and that was the extent of the agreement. Some would say that the performance and termination of the agreement both took place when the exchange was made. However, taking a closer look at the specific facts of the exchange leads to a different analysis.

41 212 F. 930 (1914).

It is apparent that the plaintiff thought the defendant's work had value. Value in art stems from uniqueness - if the photograph was available everywhere, then it would lose value. In addition, by accepting consideration for his photograph and its copyright, the defendant acknowledges that his photograph has value and that he is willing to part with it for the right price. Then under these circumstances, one could find that there was an implied covenant of good faith and fair dealing by the defendant not to destroy the fruits of the contract, namely the value of the photograph and copyright he sold. This type of covenant is one that must extend beyond the time the agreement was struck, since to hold the defendant to this duty *only* at the time the agreement was signed and the exchange was made would be useless to the plaintiff.

Therefore, by photographing the same model in a very similar pose, the defendant would be negating the uniqueness of his previous photograph, or mocking it, in either case devaluing its worth to the plaintiff. Since the defendant already was compensated for his previous work under a specific set of circumstances, it would hold that if he later modified the playing field so that he is advantaged at the expense of the plaintiff based on a previous agreement, then he would be acting in bad faith and thereby breaching the covenant of good faith and fair dealing.

The importance of this analysis in the *Gross* case becomes important because when one looks at the grounds that the case was actually decided upon, copyright infringement, one has to wonder whether this cause of action was truly the best one available. Once again, the judges can only deal with what they are presented in terms of causes of action, but the decision of copyright infringement in this case stretches the application of how infringement is determined. In *Gross*, the two photographs were taken two years apart, long enough so that the physical features of the model had changed slightly. The model was posed with a different facial expression, and a cherry stem between her teeth. The background was slightly different, and so was the lighting. Yet the Court found copyright infringement, even with these changes. One could wonder whether copyright infringement would have been found had the Court had an alternative cause of action upon which to find for the plaintiff.

IV. REMEDIES

Of course, any advocacy for the more frequent use of the doctrine of good faith and fair dealing must be put in the context of what remedies would be afforded to the party using this cause of action.

Breach of the doctrine of good faith and fair dealing results in the type of remedies afforded for any breach of contract, including expectation damages, reliance damages, restitution, and liquidated damages.

In contrast, the types of remedies afforded in IP law affords greater flexibility as to what may be recovered. In patent law, among the remedies that may be pursued under statute are injunctions, patentee's damages, reasonable royalty, and attorney's fees[42]. In trademark law, a plaintiff may ask for an injunction, defendant's profits, plaintiff's damages, treble damages, destruction of infringing goods, costs, and attorneys fees[43]. In copyright law, among the remedies that are available are injunctions, impounding of infringing articles, plaintiff's damages, defendants profits, statutory damages, costs, and attorney's fees[44]

One can readily see that the types of remedies available to IP causes of action exceed the remedies afforded to contract breaches. However, based on the unique facts of each case, the disparity in remedies may not be as great as perceived. Therefore, any application of the covenant of good faith and fair dealing as a cause of action should be done with eyes open as to the types of remedies that are available.

---

42 See 35 U.S.C. §§ 283-285 (1993).
43 See 15 U.S.C. §§ 1117,1118 (1993).
44 See 17 U.S.C. §§ 502-505 (1993).

V. CONCLUSION

In a perfect world, IP law would be so thoroughly developed that it would offer definite and predictable results no matter the subject matter of the case. Unfortunately that is not the case, and many times, Courts contort IP law in order to assure that an aggrieved party is provided a remedy. Over time, this contortion of the law leads to anomalies in the law that are not easily explained, nor understandable in a way that may assist future litigants. This Note has suggested that these anomalies in IP law may be diminished through the use of more conventional causes of action, namely the covenant of good faith and fair dealing. Therefore, in many cases where the established IP law does not favor a patently aggrieved party, the Court will have the ability to provide a remedy to that party based on a cause of action that doesn't necessitate the contortion of existing IP law.

Of course the application of the covenant of good faith and fair dealing does have its limitations, including the nature of the relationship between the parties, the time at which the activity in question occurred, and the type of remedy desired. However, in the right set of circumstances, the application of the covenant of good faith and fair dealing provides for a useful tool for a litigant in an IP-related case.