Business Law

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asterCard International, Inc., issues credit cards through more than 23,000 banks and other financial institutions. Since 1997, MasterCard has aired television commercials that have come to be known as the “Priceless Advertisements.” These advertisements include a sequence of names and pictures of goods and services purchased by persons using their credit cards. Voiceovers and visual displays convey to the viewer the prices of these items. Each Priceless Advertisement concludes with mention of a priceless intangible that cannot be purchased (e.g., “a day where all you have to do is breathe”). The reference to the priceless intangible is followed with this statement: “Priceless. There are some things money can’t buy. For everything else there’s MasterCard.”

In August 2000, it came to MasterCard’s attention that Ralph Nader’s campaign committee was promoting Nader’s presidential campaign through use of a television advertisement that bore similarities to MasterCard’s commercials. Nader’s political advertisement listed this series of items and their supposed prices:

- Grilled tenderloin for fund-raiser: $1,000 a plate.
- Campaign ads filled with half-truths: $10 million.
- Promises to special interest groups: over $100 billion.

The advertisement concluded with “[f]inding out the truth: priceless. There are some things that money can’t buy.” Besides being aired on television during a period of roughly two weeks in August 2000, the Nader advertisement appeared on the candidate’s Web site during the remainder of the 2000 presidential campaign.

MasterCard complained to Nader’s campaign organization about the Nader advertisement’s similarity to the long-running MasterCard commercials, suggested in a letter that the Nader campaign develop a more “original” advertisement, and threatened litigation if use of the Nader advertisement continued. It soon became clear that there would be no agreement to resolve the dispute. Therefore, MasterCard filed suit against Nader and his campaign organization.

Consider this scenario and the following questions as you read Chapter 8:

- Which area of intellectual property law provides MasterCard the rights it sought to enforce against the defendants? Was this, for instance, a patent infringement case? Alternatively, was it a copyright infringement case? Or was it a trademark rights case? Could MasterCard have been relying on more than one of these areas of intellectual property law?
- What specific rights would MasterCard have been attempting to enforce in this litigation?
- What arguments would the defendants have made in an effort to avoid liability to MasterCard?
- What public policy issues are at stake in cases of this nature?
- How did this case turn out?
- What ethical questions are suggested by a person’s use of someone else’s intellectual property? What ethical issues attend intellectual property owners’ attempts to enforce their supposed rights?
THIS CHAPTER DISCUSSES LEGAL rules that allow civil recoveries for abuses of free competition. These abuses are (1) infringement of intellectual property rights protected by patent, copyright, and trademark law; (2) misappropriation of trade secrets; (3) the intentional torts of injurious falsehood, interference with contractual relations, and interference with prospective advantage; and (4) the various forms of unfair competition addressed by section 43(a) of the Lanham Act. Indeed, the term unfair competition describes the entire chapter. In general, competition is deemed unfair when (1) it discourages creative endeavor by robbing creative people of the fruits of their innovations, or (2) it renders commercial life too uncivilized for the law to tolerate.

Protection of Intellectual Property

Patents A patent may be viewed as an agreement between an inventor and the federal government. Under that agreement, the inventor obtains the exclusive right (for a limited time) to make, use, and sell his invention, in return for making the invention public by giving the government certain information about it. The patent holder’s (or patentee’s) monopoly encourages the creation and disclosure of inventions by stopping third parties from appropriating them once they become public. However, third parties may develop the invention in ways that do not interfere with the patentee’s rights.

What Is Patentable? An inventor may patent (1) a process (a mode of treatment of certain materials to produce a given result), (2) a machine, (3) a manufacture or product, (4) a composition of matter (a combination of elements with qualities not present in the elements taken individually, such as a new chemical compound), (5) an improvement of any of the above, (6) an ornamental design for a product, and (7) a plant produced by asexual reproduction. Certain business methods may also be patentable. Naturally occurring things (e.g., a new wild plant) are not patentable. In addition, abstract ideas and scientific or mathematical concepts are not patentable, although their practical applications often are. In Diamond v. Diehr (1981), for instance, the Supreme Court held that a computer program may be patentable if it is part of a patentable process.1 Even though an invention fits within one of the above categories, it is not patentable if it lacks novelty, is obvious, or has no utility, or if the patent applicant is an inappropriate applicant.2 One aspect of the novelty requirement is the rule that no patent should be issued where before the invention’s creation it has been (1) known or used in the United States, (2) patented in the United States or a foreign country, or (3) described in a printed publication in the United States or a foreign country. Another aspect is the requirement that no patent should be issued if more than one year before the patent application the invention was (1) patented in the United States or a foreign country, (2) described in a printed publication in the United States or a foreign country, or (3) in public use or on sale in the United States. The Pfaff case, which follows shortly, deals with the rule just noted.

In addition, there can be no patent if the invention would have been obvious to a person having ordinary skill in the area. A patentable invention must also have utility, or usefulness. Finally, there can be no patent if the applicant did not create the invention in question, or if she abandoned the invention. Creation problems frequently arise where several persons allegedly contributed to the invention. Abandonment may be by express statement, such as publicly devoting an invention to humanity, or by implication from conduct, such as delaying for an unreasonable length of time before making a patent application.

Obtaining a Patent The United States Patent and Trademark Office handles patent applications. The application must include a specification describing the invention with sufficient detail and clarity to enable a person skilled in the relevant field to make and use the invention. The application must also contain a drawing when this is necessary for understanding the subject matter to be patented. The Patent Office then determines whether the invention meets the various tests for patentability. If the application is rejected, the applicant may resubmit it. Once any of the applicant’s claims have been rejected twice, the applicant may appeal to the Office’s Board of Patent Appeals and Interferences. Subsequent appeals to the federal courts are also possible.

1As discussed later in this chapter, computer programs may obtain copyright and trade secret protection.

2Plant and design patents are subject to requirements that are slightly different from those stated here.
Wayne Pfaff began development work on a new computer chip socket in November 1980. He prepared detailed engineering drawings that described the design and dimensions of the socket and the materials to be used in making it. Pfaff sent the drawings to a manufacturer in February or March 1981. Prior to March 17, 1981, he showed a sketch of his concept to representatives of Texas Instruments. On April 8, 1981, the Texas Instruments representatives provided Pfaff a written confirmation of a previously placed oral purchase order for 30,100 of the new sockets. The total purchase price was $91,155. In accordance with his usual business practice, Pfaff did not make and test a prototype of the socket before offering to sell it.

The manufacturer to which Pfaff sent his drawings took a few months to develop the customized tooling necessary to produce the socket. The first actual sockets were not produced until the summer of 1981. Pfaff filed the Texas Instruments order in July 1981. Other orders followed, as the socket became a commercial success. On April 19, 1982, Pfaff applied for a patent on the socket. A patent was issued to him in January 1985. Pfaff later filed an infringement action against Wells Electronics, Inc., which produced a competing socket. Wells Electronics argued that Pfaff’s patent was invalid under section 102(b) of the Patent Act of 1952, which states that a patent cannot be obtained for an invention if it has been “on sale” for more than a year before the filing of the patent application.

The federal district court rejected Wells Electronics’ section 102(b) defense because Pfaff had filed the patent application less than a year after reducing the invention to practice (i.e., less than a year after the first actual sockets were produced and available for sale). The district court held Wells Electronics liable for infringement but the U.S. Court of Appeals for the Federal Circuit reversed. The Court of Appeals held that Pfaff’s patent was invalid because the socket had been offered for sale on a commercial basis more than a year before the filing of the patent application. The U.S. Supreme Court granted certiorari.

Stevens, Justice

Section 102(b) of the Patent Act of 1952 provides that no person is entitled to patent an “invention” that has been “on sale” for more than one year before filing a patent application. We granted certiorari to determine whether the commercial marketing of a newly invented product may mark the beginning of the one-year period even though the invention has not yet been reduced to practice.

On April 19, 1982, Pfaff filed an application for a patent on the computer chip socket. Therefore, April 19, 1981 constitutes the critical date for purposes of the on-sale bar of section 102(b); if the one-year period began to run before that date, Pfaff lost his right to patent his invention.

The primary meaning of the word “invention” in the Patent Act unquestionably refers to the inventor’s conception rather than to a physical embodiment of the idea. The statute does not contain any express requirement that an invention must be reduced to practice before it can be patented. Neither the statutory definition of the term nor the basic conditions for obtaining a patent make any mention of “reduction to practice.”

It is well settled that an invention may be patented before it is reduced to practice. In 1888, this Court upheld a patent issued to Alexander Graham Bell even though he had filed his application before constructing a working telephone. [In upholding the issuance of the patent to Bell, the Court stated:]

The law does not require that a discoverer or inventor, in order to get a patent for a process, must have succeeded in bringing his art to the highest degree of perfection. It is enough if he describes his method with sufficient clearness and precision to enable those skilled in the matter to understand what the process is, and if he points out some practicable way of putting it into operation.

*The Telephone Cases*, 126 U.S. 1 (1888).

When we apply the reasoning of *The Telephone Cases* to the facts of the case before us today, it is evident that Pfaff could have obtained a patent on his novel socket when he accepted the purchase order from Texas Instruments for 30,100 units. At that time he provided the manufacturer with a description and drawings that had “sufficient clearness and precision to enable those skilled in the matter” to produce the device. The parties agree that the sockets manufactured to fill that order embody Pfaff’s conception. We can find no basis in the text of section 102(b) or in the facts of this case for concluding that Pfaff’s invention was not “on sale” within the meaning of the statute until after it has been reduced to practice.

When Pfaff accepted the purchase order for his new sockets prior to April 8, 1981, his invention was ready for patenting. The fact that the manufacturer was able to produce the socket using his detailed drawings and specifications demonstrates this fact. Furthermore, those sockets contained all the elements of the invention claimed in the patent. Therefore, Pfaff’s patent is invalid because the invention had been on sale for more than one year in this country before he filed his patent application.

*Judgment of Court of Appeals affirmed.*
Ownership and Transfer of Patent Rights. Until a relatively recent change in federal law, a patent normally gave the patentee exclusive rights to make, use, and sell the patented invention for 17 years from the date the patent was granted. In order to bring the United States into compliance with the General Agreement on Tariffs and Trade (an international agreement commonly known as GATT), Congress amended the patent law to provide that the patentee’s exclusive rights to make, use, and sell the patented invention generally exist until the expiration of 20 years from the date the patent application was filed. This duration rule applies to patents that result from applications filed on or after June 8, 1995. (A design patent, however, exists for 14 years from the date it was granted.) A 1999 enactment of Congress allowed for the possible extension of a patent’s duration if the Patent Office delayed an unreasonably long time in acting on and approving the patentee’s application.

The patentee may transfer ownership of the patent by making a written assignment of it to another party. Alternatively, the patentee may retain ownership and license others to exercise some or all of the patent rights. International licensing and patent rights issues are discussed in a Global Business Environment box that appears later in the chapter.

Usually, the party who created the invention is the patent holder. What happens, however, when the creator of the invention is an employee and her employer seeks rights in the invention? If the invention was developed by an employee hired to do inventive or creative work, she must use the invention solely for the employer’s benefit and must assign any patents she obtains to the employer. If the employee was hired for purposes other than invention or creation, however, she owns any patent she acquires. Finally, regardless of the purpose for which the employee was hired, the shop right doctrine gives the employer a nonexclusive, royalty-free license to use the employee’s invention if it was created on company time and through the use of company facilities. Any patent the employee might retain is still effective against parties other than the employer.

Patent Infringement. Patent infringement occurs when a defendant, without authorization from the patentee, takes action that usurps any of the patentee’s rights to make, use, and sell the patented invention. Infringement may be established under principles of literal infringement or under a judicially developed approach known as the doctrine of equivalents. Infringement is literal in nature when the subject matter made, used, or sold by the defendant clearly falls within the stated terms of the claims of invention set forth in the patentee’s application. Under the doctrine of equivalents, a defendant may be held liable for infringement even though the subject matter he made, used, or sold contained elements that were not identical to those described in the patentee’s claim of invention, if the elements of the defendant’s subject matter nonetheless may be seen as equivalent to those of the patented invention. A traditional formulation of the test posed by the doctrine of equivalents is whether the alleged infringer’s subject matter performs substantially the same function as the protected invention in substantially the same way, in order to obtain the same result.

Roughly a decade ago, an alleged infringer sought to convince the Supreme Court to abolish the doctrine of equivalents on the ground that it effectively allows patentees to extend the scope of patent protection beyond the stated terms approved by the Patent Office when it issued the patent. In Warner-Jenkinson Co. v. Hilton Davis Chemical Co. (1997), however, the Court rejected this attack on the doctrine. The Court observed that in view of courts’ long-standing use of the doctrine (use in which Congress seemingly acquiesced by not legislatively prohibiting it), arguments for abolishing the doctrine would be better addressed to Congress. The Warner-Jenkinson Court did acknowledge, however, that overly broad application of the doctrine of equivalents could lead to an unwarranted expansion of patent owners’ rights. Therefore, the Court held that the doctrine of equivalents must be applied to the individual elements of the patentee’s claims of invention rather than to the patentee’s invention as a whole.

One who actively induces another’s infringement of a patent is liable as an infringer if he knows and intends that the infringement occur. For example, if Ingram directly infringes Paxton’s patent on a machine and Doyle knowingly sold Ingram an instruction manual for the machine, Doyle may be liable as an infringer. Finally, if one knowingly sells a direct patent infringer a component of a patented invention or something useful in employing a patented process, the seller may be liable for contributory infringement. The thing sold must be a material part of the invention and must not be a staple article of commerce with some other significant use. Suppose that Irving directly infringes Potter’s patent for a certain electronic device by selling essentially identical electronic devices. If Davis sells Irving sophisticated circuitry with knowledge of Irving’s infringement, Davis may be liable for contributory infringement, assuming that the circuitry is an important component of the electronic devices at issue and has no other significant uses.

The basic recovery for patent infringement is damages adequate to compensate for the infringement, plus court costs and interest. The damages cannot be less than
a reasonable royalty for the use made of the invention by the infringer. The court may in its discretion award damages of up to three times those actually suffered. Injunctive relief is also available, and attorney’s fees may be awarded in exceptional cases.

Defenses to Patent Infringement One defense to a patent infringement suit is that the subject matter of the alleged infringement is neither within the literal scope of the patent nor substantially equivalent to the patented invention. The alleged infringer may also defend by attacking the validity of the patent. Despite having been approved by the Patent and Trademark Office, patents are sometimes declared invalid when challenged in court.

In appropriate cases, the defendant can assert that the patentee has committed patent misuse. This is behavior that unjustifiably exploits the patent monopoly. For example, the patentee may require the purchaser of a license on his patent to buy his unpatented goods, or may tie the obtaining of a license on one of his patented inventions to the purchase of a license on another. One who refuses the patentee’s terms and later infringes the patent may attempt to escape liability by arguing that the patentee misused his monopoly position.

Copyrights Copyright law gives certain exclusive rights to creators of original works of authorship. It prevents others from using their work, gives them an incentive to innovate, and thereby benefits society. Yet copyright law also tries to balance these purposes against the equally compelling public interest in the free movement of ideas, information, and commerce. It does so mainly by limiting the intellectual products it protects and by allowing the fair use defense described later.

Coverage The federal Copyright Act protects a wide range of works of authorship, including books, periodical articles, dramatic and musical compositions, works of art, motion pictures and other audio-visual works, sound recordings, lectures, computer programs, and architectural plans. To merit copyright protection, such works must be fixed—set out in a tangible medium of expression from which they can be perceived, reproduced, or communicated. They also must be original (the author’s own work) and creative (reflecting exercise of the creator’s judgment). Unlike the inventions protected by patent law, however, copyrightable works need not be novel.

Copyright protection does not extend to ideas, facts, procedures, processes, systems, methods of operation, concepts, principles, or discoveries. Instead, it protects the ways in which they are expressed. The story line of a play, for instance, is protected, but the ideas, themes, or messages underlying it are not. Although there is no copyright protection over facts, the expression in nonfiction works and compilations of fact is protected.

Computer programs involve their own special problems. It is fairly well settled that copyright law protects a program’s object code (program instructions that are machine-readable but not intelligible to humans) and source code (instructions intelligible to humans). There is less agreement, however, about the copyrightability of a program’s nonliteral elements such as its organization, its structure, and its presentation of information on the screen. Most courts that have considered the issue hold that nonliteral elements may sometimes be protected by copyright law, but courts differ about the extent of this protection.

Creation and Notice A copyright comes into existence upon the creation and fixing of a protected work. Although a copyright owner may register the copyright with the U.S. Copyright Office, registration is not necessary for the copyright to exist. However, registration normally is a procedural prerequisite to filing a suit for copyright infringement. Even though it is not required, copyright owners often provide notice of the copyright. Federal law authorizes a basic form of notice for use with most copyrighted works. A book, for example, might include the term Copyright (or the abbreviation Copr. or the symbol ©), the year of its first publication, and the name of the copyright owner in a location likely to give reasonable notice to readers.

Duration The U.S. Constitution’s Copyright Clause (Article I, section 8) empowers Congress to “promote the progress of Science and useful arts” by enacting copyright and patent laws that “secure[ ] for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” Thus, copyrights and patents cannot last forever. Even so, the history of copy-
right protection in the United States has featured various significant lengthenings of the “limited time” a copyright endures. When a copyright’s duration ends, the underlying work enters the public domain and becomes available for any uses other parties wish to make of it. The former copyright owner, therefore, loses control over the work and forfeits what had been valuable legal rights.

With the enactment of the Sonny Bono Copyright Term Extension Act (hereinafter “CTEA”) in 1998, Congress conferred a substantial benefit on copyright owners. The CTEA added 20 years to the duration of copyrights, not only for works created after the CTEA’s enactment but also for any preexisting work that was still under valid copyright protection as of the CTEA’s October 1998 effective date. Copyright owners—especially some high-profile corporations whose copyrights on older works would soon have expired if not for the enactment of the CTEA—mounted a significant lobbying effort in favor of the term extension provided by the CTEA.

The CTEA’s effect cannot be understood without discussion of the copyright duration rules that existed immediately before the CTEA’s enactment. One set of rules applied to works created in 1978 or thereafter; another set applied to pre-1978 works. The copyright on pre-1978 works was good for a term of 28 years from first publication of the work, plus a renewal term of 47 years. (The renewal term had been only 28 years until Congress changed the law roughly three decades ago and added 19 more years to the renewal term for any work then under valid copyright protection.) As a result, 75 years of protection was available for pre-1978 works.

For works created in 1978 or thereafter, Congress scrapped the initial-term-plus-renewal-term approach, opting instead for a normally applicable rule that the copyright lasts for the life of the author/creator plus 50 years. This basic duration rule did not apply, however, if the copyrighted work, though created in 1978 or thereafter, was a work-for-hire. (The two types of work-for-hire will be explained below.) In a work-for-hire situation, the copyright would exist for 75 years from first publication of the work or 100 years from creation of it, whichever came first.

The CTEA tacked on 20 years to the durations contemplated by the rules discussed in the preceding two paragraphs. A pre-1978 work that was still under valid copyright protection as of late 1998 (when the CTEA took effect) now has a total protection period of 95 years from first publication—a 28-year initial term plus a renewal term that has been lengthened from 47 to 67 years. The copyright on Disney’s “Steamboat Willie” cartoon—best known for its introduction of the famous Mickey Mouse character—serves as an example. The protection period for the Steamboat Willie copyright began to run in the late 1920s, when the cartoon was released and distributed (i.e., published, for purposes of copyright law). Given the rule that existed immediately before the CTEA’s enactment (an initial term of 28 years plus a renewal term of 47 years), the Steamboat Willie copyright would have expired within the first few years of the current century. The CTEA, however, gave Disney an additional 20 years of rights over the Steamboat Willie cartoon before it would pass into the public domain.

With the enactment of the CTEA, the basic duration rule for works created in 1978 or thereafter is now life of the author/creator plus 70 years (up from 50). The duration rule for a work-for-hire is now 95 years from first publication (up from 75) or 120 years from creation (up from 100), whichever comes first.

Critics of the CTEA mounted a constitutional challenge to the statute in Eldred v. Ashcroft, a case that made its way to the Supreme Court. Those challenging the CTEA argued that the statute violated the purpose of the “limited times” provision in the Constitution’s Copyright Clause by making copyright protection so lengthy in duration. They also contended that the Copyright Clause’s language empowering Congress to enact copyright laws to “promote the progress of science and useful arts” served as an incentive-to-create limitation on the exercise of that power, and that the CTEA—at least insofar as it applied to works already created as of 1998—unconstitutionally violated the incentive-to-create limitation. In its 2003 decision in Eldred, the Supreme Court rejected the constitutional challenge to the CTEA. The Court concluded that the CTEA may have been an unwise enactment as a matter of public policy, but that it fell within the authority extended to Congress by the Copyright Clause.

**Works-for-Hire** A work-for-hire exists when (1) an employee, in the course of her regular employment duties, prepares a copyrightable work; or (2) an individual or corporation and an independent contractor (i.e., nonemployee) enter into a written agreement under which the independent contractor is to prepare, for the retaining individual or corporation, one of several types of copyrightable works designated in the Copyright Act. In the first situation, the employer is legally classified as the work’s author and copyright owner. In the second situation, the party who (or which) retained the independent contractor is considered the resulting work’s author and copyright owner.
Ownership Rights. A copyright owner has exclusive rights to reproduce the copyrighted work, prepare derivative works based on it (e.g., a movie version of a novel), and distribute copies of the work by sale or otherwise. With certain copyrighted works, the copyright owner also obtains the exclusive right to perform the work or display it publicly. Copyright ownership initially resides in the creator of the copyrighted work, but the copyright may be transferred to another party. Also, the owner may individually transfer any of the listed rights, or a portion of each, without losing ownership of the remaining rights. Most transfers of copyright ownership require a writing signed by the owner or his agent. The owner may also retain ownership while licensing the copyrighted work or a portion of it.

Infringement. Those who violate any of the copyright owner's exclusive rights may be liable for copyright infringement. Infringement is fairly easily proven when direct evidence of significant copying exists; verbatim copying of protected material is an example. Usually, however, proof of infringement involves establishing that (1) the defendant had access to the copyrighted work; (2) the defendant engaged in enough copying—either de-

### CYBERLAW IN ACTION

In the Digital Millennium Copyright Act of 1998 (DMCA), Congress addressed selected copyright issues as to which special rules seemed appropriate, in view of recent years’ technological advances and explosion in Internet usage. One such issue was how narrowly or broadly to define the class of parties potentially liable for copyright infringement in an Internet context. If, without Osborne’s consent, Jennings posts Osborne’s copyrighted material on an electronic bulletin board made available by Devaney (an Internet service provider), is only Jennings liable to Osborne, or is Devaney also liable? In the DMCA, Congress enacted “safe harbor” provisions designed to protect many service providers such as Devaney from liability for the actions of direct infringers who posted or transmitted copyrighted material.

The DMCA also addressed the actions of persons who seek to circumvent technological measures (e.g., encryption, password-protection measures, and the like) that control access to or copying of a copyrighted work. With certain narrowly defined exceptions of very limited applicability, Congress outlawed both (1) the circumvention of such technological measures and (2) the activity of trafficking in programs or other devices meant to accomplish such circumvention.

In Universal City Studios, Inc. v. Corley, 273 F.3d 429 (2d Cir. 2001), the U.S. Court of Appeals for the Second Circuit rejected the arguments of an individual (Corley) who had been held liable to various movie studios for violating the antitrafficking provisions of the DMCA. Corley had written an article about the decryption program known as “DeCSS” and had posted the article on his Web site, along with a copy of the DeCSS program itself and links to other sites where DeCSS could be found. DeCSS had been developed by parties other than Corley as a means of decrypting the “CSS” encryption technology that movie studios place on copyrighted DVDs of their movies. If it is not circumvented, CSS prevents the copying of the movie that appears on the DVD. A federal district court, holding that Corley had violated the DMCA’s antitrafficking provisions, issued an injunction barring Corley from posting DeCSS on his Web site and from posting links to other sites where DeCSS could be found.

On appeal, Corley argued that his publication of the DeCSS program’s codes was speech protected by the First Amendment and that the application of the DMCA to him was thus unconstitutional. The Second Circuit concluded that Corley was to some extent engaged in speech but that his actions also had a substantial nonspeech component. In any event, the Second Circuit reasoned, the DMCA’s antitrafficking provisions served a substantial government interest in protecting the rights of intellectual property owners and were content-neutral restrictions unrelated to the suppression of free expression. The court therefore held that the antitrafficking provisions did not violate the First Amendment.

Some critics of the DMCA’s anticircumvention and antitrafficking provisions have asserted that those provisions may operate to restrict users’ ability to make fair use of copyrighted materials. Evidently attempting to convert this policy-based objection about what Congress enacted into a constitutional objection on which the court might be more inclined to rule, Corley argued that the fair use doctrine was required by the First Amendment and that the DMCA, insofar as it limited users’ ability to rely on the fair use doctrine, was unconstitutional. The Second Circuit called it “extravagant” to assert that the fair use doctrine was constitutionally required, for there was no substantial authority to support such a contention. Moreover, the court reasoned that even if Corley’s contention were not otherwise questionable, “[f]air use has never been held to be a guarantee of access to copyrighted material in order to copy it by the fair user’s preferred technique or in the format of the original.”
Chapter Eight  

Intellectual Property and Unfair Competition

liberately or subconsciously—that the resemblance between the allegedly infringing work and the copyrighted work does not seem coincidental; and (3) there is substantial similarity between the two works.

Access may be proven circumstantially, such as by showing that the copyrighted work was widely circulated. The copying and substantial similarity elements, which closely relate to each other, necessarily involve discretionary case-by-case determinations. Of course, the copying and substantial similarity must exist with regard to the copyrighted work’s protected expression. Copying of general ideas, facts, themes, and the like (i.e., copying of unprotected matter) is not infringement. The defendant’s having paraphrased protected expression does not constitute a defense to what otherwise appears to be infringement. Neither does the defendant’s having credited the copyrighted work as the source from which the defendant borrowed.

Recent years’ explosion in Internet usage has led to difficult copyright questions. For instance, services such as Napster, Grokster, and StreamCast have allowed easy and free-of-charge access to musical recordings in digital files. Owners of copyrights on songs and recordings have expressed concern over these services and have resorted to litigation against such providers on the theory that they materially contributed to or induced copyright infringement by their users. In its 2005 Grokster decision, the Supreme Court focused on the inducement basis for imposing liability on services such as Grokster and StreamCast. That case follows below.

The basic recovery for copyright infringement is the owner’s actual damages plus the attributable profits received by the infringer. In lieu of the basic remedy, however, the plaintiff may usually elect to receive statutory damages. The statutory damages set by the trial judge or jury must fall within the range of $750 to $30,000 unless the infringement was willful, in which event the maximum rises to $150,000. These limits do not apply if the plaintiff elects the basic remedy, however. Injunctive relief and awards of costs and attorney’s fees are possible in appropriate cases. Although it seldom does so, the federal government may pursue a criminal copyright infringement prosecution if the infringement was willful and for purposes of commercial advantage or private financial gain.

Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.
125 S. Ct. 2764 (U.S. Sup. Ct. 2005)

Grokster, Ltd., and StreamCast Networks, Inc., defendants in the case described below, distributed free software products allowing computer users to share electronic files through peer-to-peer networks. The networks are called “peer-to-peer” because users’ computers communicate directly with each other rather than through central servers. Because they need no central computer server to mediate the exchange of information or files among users, the high-bandwidth communications capacity for a server may be dispensed with, and the need for costly server storage space is eliminated. Because copies of a file are available on many users’ computers, file requests and retrievals may be faster than on other types of networks. The lack of a need for a central server eliminates possible server glitches and resulting server downtime. Given these benefits in security, cost, and efficiency, peer-to-peer networks are employed to store and distribute electronic files by universities, government agencies, corporations, and libraries.

Other users of peer-to-peer networks include individual recipients of Grokster’s and StreamCast’s software. Although the networks these persons enjoy through using the software can be employed for the sharing of any type of digital file, evidence produced in the case described below indicated that most users employed the networks in order to share copyrighted music and video files without authorization. Numerous copyright owners—including motion picture studios, recording companies, songwriters, and music publishers, but referred to here as “MGM” for convenience—filed separate lawsuits against Grokster and StreamCast in an effort to have them held liable for their users’ copyright infringements. The various cases were consolidated into one case in a federal district court. MGM sought damages and an injunction on the theory that Grokster and StreamCast knowingly and intentionally distributed their software to enable users to reproduce and distribute copyrighted works in violation of the Copyright Act.

Grokster’s software employed the FastTrack technology. StreamCast distributed a similar product except that its software, called Morpheus, relied on the Gnutella technology. A user who downloaded and installed either software possessed the protocol to send requests for files directly to the computers of others using software compatible with FastTrack or Gnutella. If the requested file was found, the requesting user could download it directly from the computer where it was located. The copied file would be placed in a designated sharing folder on the requesting user’s computer, where it was available for other
users to download in turn, along with any other file in that folder. As this description indicates, Grokster and StreamCast used no servers to intercept the content of the search requests or to mediate the file transfers conducted by users of the software. There was no central point through which the substance of the communication passed in either direction.

Although Grokster and StreamCast therefore did not know when particular files were copied, searches using their software revealed what was available on the networks the software reached. A study by a statistician for MGM showed that nearly 90 percent of the files available for download on the FastTrack system were copyrighted works. Grokster and StreamCast disputed this figure and argued that free copying of copyrighted works is sometimes authorized by the copyright holders. The defendants also argued that potential noninfringing uses of their software were significant. Some musical performers, they noted, had gained new audiences by distributing their copyrighted works for free across peer-to-peer networks, and some distributors of public domain content (e.g., Shakespeare’s plays) had used peer-to-peer networks to disseminate files. MGM provided evidence tending to indicate, however, that the vast majority of users’ downloads were acts of infringement. With more than 100 million copies of the software in question having been downloaded, and billions of files being shared across the FastTrack and Gnutella networks each month, the number of instances of copyright infringement by users was potentially huge.

Grokster and StreamCast conceded the infringement present in most downloads and recognized that users employed their software primarily to download copyrighted files, even if the decentralized FastTrack and Gnutella networks failed to reveal which files were being copied. From time to time, the defendants learned about their users’ infringement directly, such as when users e-mailed the defendants with questions about playing copyrighted movies they had downloaded. Moreover, MGM notified Grokster and StreamCast of approximately eight million copyrighted files that could be obtained using their software.

In addition, MGM produced evidence tending to indicate that from the time Grokster and StreamCast began to distribute their free software, each one voiced the objective that recipients use it to download copyrighted works. MGM presented further evidence suggesting that after a successful lawsuit by copyright owners effectively shut down the Napster file-sharing service, Grokster and StreamCast sought to promote their software as a device by which former Napster users could obtain ready access to desired files. Although Grokster and StreamCast distributed their software free of charge, they made money by selling advertising space and streaming the advertising to users of the software.

After discovery, all parties moved for summary judgment. The federal district court held that those who used the Grokster and StreamCast software to download copyrighted media files directly infringed MGM’s copyrights. However, the court granted summary judgment in favor of Grokster and StreamCast. Distributing their software gave rise to no liability, in the court’s view; because its use did not provide the distributors with actual knowledge of specific acts of infringement. The U.S. Court of Appeals for the Ninth affirmed, reading Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984), as holding that distribution of a commercial product capable of substantial noninfringing uses could not give rise to contributory liability for infringement unless the distributor had actual knowledge of specific instances of infringement and failed to act on that knowledge. Because the defendants’ software was capable of substantial noninfringing uses and because the decentralized architecture of their software meant that the defendants had no actual knowledge of specific instances of infringement, the Ninth Circuit concluded that the defendants could not be held liable on a contributory infringement basis. The Ninth Circuit also ruled that Grokster and StreamCast could not be liable under a theory of vicarious infringement because the defendants did not monitor or control the use of the software, had no ability to supervise its use, and had no independent duty to police infringement. The U.S. Supreme Court granted MGM’s petition for a writ of certiorari.

Souter, Justice

The question is under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product. We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.

MGM . . . fault[s] the Court of Appeals’ holding for upsetting a sound balance between the respective values of supporting creative pursuits through copyright protection and promoting innovation in new communication technologies by limiting the incidence of liability for copyright infringement. The more artistic protection is favored, the more technological innovation may be discouraged; the administration of copyright law is an exercise in managing the trade-off.

The tension between the two values is the subject of this case, with its claim that digital distribution of copyrighted material threatens copyright holders as never before, because every copy is identical to the original, copying is easy, and many people (especially the young) use file-sharing software to download copyrighted works. This very breadth of the software’s use may well draw the public directly into the debate over copyright
policy, and the indications are that the ease of copying songs or movies using software [such as] Grokster’s and Napster’s is fostering disdain for copyright protection. As the case has been presented to us, these fears are said to be offset by the different concern that imposing liability, not only on infringers but on distributors of software based on its potential for unlawful use, could limit further development of beneficial technologies.

The argument for imposing indirect liability in this case is, however, a powerful one, given the number of infringing downloads that occur every day using StreamCast’s and Grokster’s software. When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or vicarious infringement.

One infringes contributorily by intentionally inducing or encouraging direct infringement, and infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it. Although “the Copyright Act does not expressly render anyone liable for infringement committed by another,” Sony Corp. v. Universal City Studios, 464 U.S. 417 (1984), these doctrines of secondary liability emerged from common law principles and are well established in the law. In the present case, MGM has argued [not only a contributory infringement theory but also] a vicarious liability theory. Because we resolve the case based on an inducement theory, there is no need to analyze separately MGM’s vicarious liability theory.

Despite the currency of these principles of secondary liability, this Court has dealt with secondary copyright infringement in only one recent case, and because MGM has tailored its principal claim to our opinion there, a look at our earlier holding is in order. In Sony Corp. v. Universal City Studios, this Court addressed a claim that secondary liability for infringement can arise from the very distribution of a commercial product. There, the product, novel at the time, was what we know today as the videocassette recorder, or VCR. Copyright holders sued Sony, the manufacturer, claiming it was contributorily liable for infringement that occurred when VCR owners taped copyrighted programs because it supplied the means used to infringe, and it had constructive knowledge that infringement would occur. [T]he evidence showed that the principal use of the VCR was for “‘time-shifting,’ “ or taping a program for later viewing at a more convenient time, which the Court found to be a fair, not an infringing, use. There was no evidence that Sony had expressed an object of bringing about taping in violation of copyright or had taken active steps to increase its profits from unlawful taping. Although Sony’s advertisements urged consumers to buy the VCR to “‘record favorite shows’ “ or “‘build a library’ “ of recorded programs, neither of these uses was necessarily infringing.

On those facts, with no evidence of stated or indicated intent to promote infringing uses, the only conceivable basis for imposing liability was on a theory of contributory infringement arising from its sale of VCRs to consumers with knowledge that some would use them to infringe. But because the VCR was “‘capable of commercially significant noninfringing uses,’” we [borrowed an approach followed in patent law] and held the manufacturer could not be faulted solely on the basis of its distribution. [This approach was designed to leave] breathing room for innovation and a vigorous commerce.

The parties . . . think the key to resolving [this case] is the Sony rule and, in particular, what it means for a product to be “capable of commercially significant noninfringing uses.” MGM advances the argument that granting summary judgment to Grokster and StreamCast . . . gave too much weight to the value of innovative technology, and too little to the copyrights infringed by users of their software, given that 90 percent of works available on one of the networks was shown to be copyrighted. Assuming the remaining 10 percent to be its noninfringing use, MGM says this should not qualify as “substantial,” and the Court should quantify Sony to the extent of holding that a product used “principally” for infringement does not qualify. Grokster and StreamCast reply by citing evidence that their software can be used to reproduce public domain works, and they point to copyright holders who actually encourage copying. Even if infringement is the principal practice with their software today, they argue, the noninfringing uses are significant and will grow.

We agree with MGM that the Court of Appeals misapplied Sony; which it read as limiting secondary liability quite beyond the circumstances to which the case applied. Sony barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement. The Ninth Circuit read Sony’s limitation to mean that whenever a product is capable of substantial lawful use, the producer can never be held contributorily liable for third parties’ infringing use of it; it read the rule as being this broad, even when an actual purpose to cause infringing use is shown by evidence independent of design and distribution of the product, unless the distributors had “specific knowledge of infringement at a time at
which they contributed to the infringement, and failed to act upon that information” [quoting the Ninth Circuit’s opinion]. Because the Ninth Circuit found the StreamCast and Grokster software capable of substantial lawful use, it concluded on the basis of its reading of Sony that neither company could be held liable, since there was no showing that their software, being without any central server, afforded them knowledge of specific unlawful uses.

This view of Sony, however, was error, converting the case from one about liability resting on imputed intent to one about liability on any theory. Sony’s rule limits imputing culpable intent as a matter of law from the characteristics or uses of a distributed product. But nothing in Sony requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law. Thus, where evidence goes beyond a product’s characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions directed to promoting infringement, Sony’s . . . rule will not preclude liability.

The classic case of direct evidence of unlawful purpose occurs when one induces commission of infringement by another, or entices or persuades another to infringe, as by advertising. Thus at common law [and later under the Patent Act, ] a patent defendant who “not only expected but invoked [infringing use] by advertisement” was liable for infringement “on principles recognized in every part of the law.” [Case citation omitted.] The rule on inducement of infringement as developed in the early cases is no different today. Evidence of “active steps . . . taken to encourage direct infringement,” [citation of patent infringement case omitted], such as advertising an infringing use or instructing how to engage in an infringing use, show an affirmative intent that the product be used to infringe. [A] showing that infringement was encouraged overcomes the law’s reluctance to find liability when a defendant merely sells a commercial product suitable for some lawful use.

For the same reasons that Sony [looked to] patent law as a model for its copyright safe-harbor rule [regarding the prospect of substantial noninfringing uses], the inducement rule, too, is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties. We are, of course, mindful of the need to keep from trenching on regular commerce or discouraging the development of technologies with lawful and unlawful potential. Accordingly, just as Sony did not find intentional inducement despite the knowledge of the VCR manufacturer that its device could be used to infringe, mere knowledge of infringing potential or of actual infringing uses would not be enough here to subject a distributor to liability. Nor would ordinary acts incident to product distribution, such as offering customers technical support or product updates, support liability in themselves. The inducement rule, instead, premises liability on purposeful, culpable expression and conduct, and thus does nothing to compromise legitimate commerce or discourage innovation having a lawful promise.

The only apparent question about treating MGM’s evidence as sufficient to withstand summary judgment under the theory of inducement goes to the need on MGM’s part to adduce evidence that StreamCast and Grokster communicated an inducing message to their software users. The classic instance of inducement is by advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations. MGM claims that such a message is shown here. It is undisputed that StreamCast beamed onto the computer screens of users of Napster-compatible programs ads urging the adoption of [Streamcast’s] OpenNap program, which was designed, as its name implied, to [appeal to users] of Napster, then under attack in the courts for facilitating massive infringement. [See A & M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001).] Those who accepted StreamCast’s OpenNap program were offered software to perform the same services, which a factfinder could conclude would readily have been understood in the Napster market as the ability to download copyrighted music files.

Grokster distributed an electronic newsletter containing links to articles promoting its software’s ability to access popular copyrighted music. And anyone whose Napster or free file-sharing searches turned up a link to Grokster would have understood Grokster to be offering the same file-sharing ability as Napster, and to the same people who probably used Napster for infringing downloads; that would also have been the understanding of anyone offered Grokster’s suggestively named Swaptor software, its version of OpenNap. And both companies communicated a clear message by responding affirmatively to requests for help in locating and playing copyrighted materials.

In StreamCast’s case, . . . the evidence just described was supplemented by other unequivocal indications of unlawful purpose in the internal communications and advertising designs aimed at Napster users. A kit developed by StreamCast to be delivered to advertisers, for example, contained press articles about StreamCast’s potential to capture former Napster users, and it introduced itself
to some potential advertisers as a company “which is similar to what Napster was.” It broadcast banner advertisements to users of other Napster-compatible software, urging them to adopt its OpenNap. An internal e-mail from a company executive stated: ‘‘We have put this network in place so that when Napster pulls the plug on their free service . . . or if the Court orders them shut down prior to that . . . we will be positioned to capture the flood of their 32 million users that will be actively looking for an alternative.’’ [A proposed advertisement that Stream- Cast considered running asked this question:] “When the lights went off at Napster . . . where did the users go?” Whether the messages were [actually] communicated is not to the point on this record. The function of the message in the theory of inducement is to prove by a defendant’s own statements that his unlawful purpose disqualifies him from claiming protection. . . . Proving that a message was sent out, then, is the preeminent but not exclusive way of showing that active steps were taken with the purpose of bringing about infringing acts, and of showing that infringing acts took place by using the device distributed. Here, the summary judgment record is replete with other evidence that Grokster and Stream- Cast, unlike the manufacturer and distributor in Sony, acted with a purpose to cause copyright violations by use of software suitable for illegal use.

Three features of this evidence of intent are particularly notable. First, each company showed itself to be aiming to satisfy a known source of demand for copyright infringement, the market comprising former Napster users. StreamCast’s internal documents made constant reference to Napster, it initially distributed its Morpheus software through an OpenNap program compatible with Napster, it advertised its OpenNap program to Napster users, and its Morpheus software functions as Napster did except that it could be used to distribute more kinds of files, including copyrighted movies and software programs. Grokster’s name is apparently derived from Nap- ster, it too initially offered an OpenNap program, its software’s function is likewise comparable to Napster’s, and it attempted to divert queries for Napster onto its own Web site. Grokster and StreamCast’s efforts to supply services to former Napster users, deprived of a mechanism to copy and distribute what were overwhelmingly infringing files, indicate a principal, if not exclusive, intent on the part of each to bring about infringement.

Second, this evidence of unlawful objective is given added significance by MGM’s showing that neither company attempted to develop filtering tools or other mechanisms to diminish the infringing activity using their software. While the Ninth Circuit treated the defendants’ failure to develop such tools as irrelevant because they lacked an independent duty to monitor their users’ activity, we think this evidence underscores Grokster’s and StreamCast’s intentional facilitation of their users’ infringement.

Third, there is a further complement to the direct evidence of unlawful objective. It is useful to recall that StreamCast and Grokster make money by selling advertising space, by directing ads to the screens of computers employing their software. As the number of users of each program increases, advertising opportunities become worth more. While there is doubtless some demand for free Shakespeare, the evidence shows that substantive volume is a function of free access to copyrighted work. Users seeking Top 40 songs, for example, or the latest release by Modest Mouse, are certain to be far more numerous than those seeking [free public domain works], and Grokster and StreamCast translated that demand into dollars. [T]he commercial sense of [the defendants’] enterprise turns on high-volume use, which the record shows is infringing [an extremely high percentage of the time]. This evidence alone would not justify an inference of unlawful intent, but viewed in the context of the entire record its import is clear.

The unlawful objective is unmistakable.

In addition to intent to bring about infringement and distribution of a device suitable for infringing use, the inducement theory of course requires evidence of actual infringement by recipients of the device, the software in this case. [In this case,] there is evidence of infringement on a gigantic scale, and there is no serious issue of the adequacy of MGM’s showing on this point in order to survive the [defendants’] summary judgment requests.

Although an exact calculation of infringing use, as a basis for a claim of damages, is subject to dispute, there is no question that the summary judgment evidence is at least adequate to entitle MGM to go forward with claims for damages and equitable relief.

In sum, this case is significantly different from Sony, and reliance on that case to rule in favor of StreamCast and Grokster was error. Sony dealt with a claim of liability based solely on distributing a product with alternative lawful and unlawful uses, with knowledge that some users would follow the unlawful course. The case struck a balance between the interests of protection and innovation by holding that the product’s capability of substantial lawful employment should bar the imputation of fault and consequent secondary liability for the unlawful acts of others.

MGM’s evidence in this case most obviously addresses a different basis of liability for distributing a
product open to alternative uses. Here, evidence of the distributors’ words and deeds going beyond distribution as such shows a purpose to cause and profit from third-party acts of copyright infringement. If liability for inducing infringement is ultimately found, it will not be on the basis of presuming or imputing fault, but from inferring a patently illegal objective from statements and actions showing what that objective was. There is substantial evidence in MGM’s favor on all elements of inducement, and summary judgment in favor of Grokster and StreamCast was error. On remand, reconsideration of MGM’s motion for summary judgment will be in order.

Judgment of Court of Appeals vacated; case remanded for further proceedings.

Fair Use

The Copyright Act states that uses for such purposes as criticism or comment, news reporting, teaching, scholarship, or research may be good candidates for the protection of the fair use defense against infringement liability. However, a court’s fair use determination requires the weighing of factors whose application varies from case to case. These factors are (1) the purpose and character of the use, (2) the nature of the copyrighted work, (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole, and (4) the effect of the use on the potential markets for the copyrighted work or on its value. Even one of the supposedly good candidates may be held not to be fair use once all of the factors are weighed and balanced. The Mattel case, which follows, illustrates the application of fair use principles.

Mattel, Inc. v. Walking Mountain Productions 353 F.3d 792 (9th Cir. 2003)

Tom Forsythe, who does business as Walking Mountain Productions, produces photographs that have social and political overtones. Among Forsythe’s works is a 78-photograph series titled “Food Chain Barbie.” These photographs depict Mattel, Inc.’s famous Barbie doll in absurd positions and settings, many of which have sexual overtones. In some of the titles of individual photographs, Forsythe uses the Barbie name. Although the photographs vary in content, Forsythe generally depicts Barbie dolls juxtaposed with vintage kitchen appliances. For example, “Malted Barbie” features a nude Barbie placed on a malt machine. “Fondue a la Barbie” depicts Barbie heads in a fondue pot. “Barbie Enchiladas” shows a lit oven and a pan containing four tortilla-wrapped, salsa-covered Barbies.

In a declaration accompanying his summary judgment motion in the litigation referred to below, Forsythe described his photographic series as an attempt to “critique the objectification of women associated with [Barbie], and [to] lambaste the conventional beauty myth and the societal acceptance of women as objects.” He said he parodied Barbie because he regards Barbie as “the most enduring of those products that feed on the insecurities of our beauty and perfection—obsessed consumer culture.” Forsythe also said he sought to communicate, through artistic expression, a serious message with an element of humor.

Forsythe’s market success was limited. He displayed his works at two art festivals and several exhibitions. He printed 2,000 promotional postcards depicting the “Barbie Enchiladas” photograph, but only 500 postcards were circulated. Forsythe also produced 1,000 business cards, which depicted “Champagne Barbie.” His name and self-given title (“Artsurdist”) appeared on the cards. In addition, Forsythe had a website on which he depicted low-resolution images of his photographs. The website was not configured for online purchasing. “Tom Forsythe’s Artsurdist Statement,” in which he described his intent to critique and ridicule Barbie, was featured on the website. Prior to the lawsuit described below, Forsythe received only four or five unsolicited calls inquiring about his work. The “Food Chain Barbie” series earned him gross income of $3,659—at least half of which stemmed from purchases by Mattel investigators.

Mattel sued Forsythe in federal district court, contending that the “Food Chain Barbie” series violated Mattel’s copyright and trademark rights in regard to the Barbie doll’s appearance and name. The district court granted Forsythe’s motion for summary judgment. In so ruling, the court held that Forsythe’s use of Mattel’s copyrighted work was fair use and thus not copyright infringement. In addition, the court rejected Mattel’s trademark infringement and dilution claims. Mattel appealed to the U.S. Court of Appeals for the Ninth Circuit. The following edited version of the Ninth Circuit’s opinion deals only with the copyright infringement and fair use issues.
Pregerson, Circuit Judge

The Copyright Act protects the owner of a copyright by granting him or her exclusive rights to “reproduce, distribute, and publicly display copies of the work.” A prima facie case of copyright infringement [requires] showing ownership by the plaintiff and copying by the defendant. Mattel owns the copyright to the unadorned Barbie head and parts of the figure, including revisions to the hands, feet, neck, shoulder, and buttocks. Because Forsythe photographed the Barbie figure and reproduced those photographs, Mattel has established a prima facie case of copyright infringement.

Consistent with its policy goals, however, the Copyright Act recognizes certain statutory exceptions to protections on copyrights. [T]he Act seeks to promote the progress of science and art by protecting artistic and scientific works while encouraging the development and evolution of new works. Recognizing that science and art generally rely on works that came before them and rarely spring forth in a vacuum, the Act limits the rights of a copyright owner regarding works that build upon, reinterpret, and reconceive existing works. The fair use exception excludes from copyright restrictions certain works, such as those that criticize and comment on another work. [The fair use defense] “permits courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster.” Dr. Seuss Enterprises v. Penguin Books USA, Inc., 109 F.3d 1394 (9th Cir. 1997).

To determine whether a work constitutes fair use, we engage in . . . a flexible balancing of relevant factors. Depending on the particular facts, some factors may weigh more heavily than others. The four factors [that the Copyright Act requires us to] consider are: (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.

Purpose and Character of Use The “purpose and character of use” factor in the fair use inquiry asks “to what extent the new work is transformative” and does not simply “supplant” the original work. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569 (U.S. Sup. Ct. 1994). [It also asks] whether the work’s purpose was for-profit or not-for-profit. [A candidate for fair use must generally add, as noted in Campbell] “something new, with a further purpose or different character, altering the first with new expression, meaning, or message.” The Supreme Court recognized [in Campbell] that parodic works, like other works that comment and criticize, are by their nature often sufficiently transformative to fit clearly under the fair use exception. A parodic work, however, like other potential fair uses, has to “work its way through the relevant factors, and be judged case by case, in light of the ends of copyright law.” Campbell.

“The threshold question [in the application of this first factor] . . . is whether a parodic character may reasonably be perceived.” Campbell. Mattel argues that the district court erred in finding parody because a reasonable jury could conclude that Forsythe’s works do not parody Barbie. In support of this argument, Mattel offered into evidence a survey [supposedly demonstrating that upon being shown Forsythe’s photographs,] only some individuals [in the general public] perceived parodic character. The issue of whether a work is a parody is a question of law, not a matter of public majority opinion. We decline to consider Mattel’s survey. Parody is an objectively defined rhetorical device. Further, because parody is “a form of social and literary criticism,” it has “socially significant value as free speech under the First Amendment.” Dr. Seuss. While individuals may disagree on the success or extent of a parody, parodic elements in a work will often justify fair use protection. Use of surveys in assessing parody would allow majorities to determine the parodic nature of a work and possibly silence artistic creativity. Allowing majorities to determine whether a work is a parody would be greatly at odds with the purpose of the fair use exception and the Copyright Act.

A parody is a “literary or artistic work that imitates the characteristic style of an author or a work for comic effect or ridicule.” Campbell. [A] parodist may claim fair use where he or she uses some of the “elements of a prior author’s composition to create a new one that, at least in part, comments on that author’s works.” Campbell. The original work need not be the sole subject of the parody; the parody “may loosely target an original” as long as the parody “reasonably could be perceived as commenting on the original or criticizing it, to some degree.” Campbell. That a parody is in bad taste is not relevant to whether it constitutes fair use. “[I]t would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of [a work].” Campbell.

In assessing whether Forsythe’s photographs parody Barbie, Mattel urges us to ignore context—both the social context of Forsythe’s work and the actual context in which Mattel’s copyrighted works are placed in Forsythe’s photographs. However, “in parody, as in news
reporting, context is everything.” Campbell. We conclude that Forsythe’s work may reasonably be perceived as a parody of Barbie.

Mattel, through impressive marketing, has established Barbie as “the ideal American woman” and a “symbol of American girlhood” for many. Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894 (9th Cir. 2002). Mattel’s advertisements show these plastic dolls dressed in various outfits, leading glamorous lifestyles, and engaged in exciting activities. Forsythe turns this image on its head, so to speak, by displaying carefully positioned, nude, and sometimes frazzled looking Barbies in often ridiculous and apparently dangerous situations. His lighting, background, props, and camera angles [combine to] create a context . . . that transforms Barbie’s meaning. In some of Forsythe’s photos, Barbie is about to be destroyed or harmed by domestic life in the form of kitchen appliances, yet continues displaying her well-known smile, disturbingly oblivious to her predicament. As portrayed in some of Forsythe’s photographs, the appliances are substantial and overwhelming, while Barbie looks defenseless. In other photographs, Forsythe conveys a sexualized perspective of Barbie by showing the nude doll in sexually suggestive contexts. It is not difficult to see the commentary that Forsythe intended or the harm that he perceived in Barbie’s influence on gender roles and the position of women in society.

However one may feel about his message—whether he is wrong or right, whether his methods are powerful or banal—his photographs parody Barbie and everything Mattel’s doll has come to signify. Undoubtedly, one could make similar statements through other means about society, gender roles, sexuality, and perhaps even social class. But Barbie, and all the associations she has acquired through Mattel’s impressive marketing success, conveys these messages in a particular way that is ripe for social comment.

Mattel strongly argues that Forsythe’s work [should not be a fair use candidate] because he could have made his statements about consumerism, gender roles, and sexuality without using Barbie. Acceptance of this argument would severely and unacceptably limit the definition of parody. We do not make judgments about what objects an artist should choose for [his or her] art. For example, in Campbell, the Supreme Court found that hip-hop band 2 Live Crew’s rendition of “Pretty Woman” was a parody because it targeted the original song and commented “on the naivete of the original of an earlier day, as a rejection of its sentiment that ignores the ugliness of street life and the debasement that it signifies.” Campbell. No doubt, 2 Live Crew could have chosen another song to make such a statement. [As noted in Dr. Suess, however, parody only requires that “the plaintiff’s copyrighted work is at least in part the target of the defendant’s satire,” not that the plaintiff’s work be the irreplaceable object for its form of social commentary. By developing and transforming associations with Mattel’s Barbie doll, Forsythe has created the sort of social criticism and parodic speech protected by the First Amendment and promoted by the Copyright Act.

Another element of the first factor analysis is whether the work’s purpose was commercial or had a nonprofit aim. Clearly, Forsythe had a commercial expectation and presumably hoped to find a market for his art. However, as the Supreme Court noted in Campbell, even works involving comment and criticism “are generally conducted for profit in this country.” On balance, Forsythe’s commercial expectation does not weigh much against him. Given the extremely transformative nature and parodic quality of Forsythe’s work, its commercial qualities become less important. We find that [the first fair use] factor weighs heavily in favor of Forsythe.

Nature of Copyrighted Work The second factor in the fair use analysis recognizes that creative works are “closer to the core of intended copyright protection than informational and functional works.” Campbell. Mattel’s copyrighted Barbie figure and face can fairly be said to be a creative work. However, the creativity of Mattel’s copyrighted Barbie is typical of cases where there are infringing parodies. [As noted in Campbell,] “[p]arodies almost invariably copy publicly known, expressive works.” [W]e have recognized in [an earlier case that the “nature of the copyrighted work” factor] “typically has not been terribly significant in the overall fair use balancing.” In any event, it may weigh slightly against Forsythe.

Amount and Substantiality of Portion Used The third factor in the fair use analysis [as required by the Copyright Act, focuses on] “the amount and substantiality of the portion used in relation to the copyrighted work as a whole.” We assess the “persuasiveness of a parodist’s justification for the particular copying done,” recognizing that the “extent of permissible copying varies with the purpose and character of the use.” Campbell. Mattel argues that Forsythe used the entirety of its copyrighted work and that this factor weighs against him. Mattel contends that Forsythe could have used less of the Barbie figure by, for example, limiting his photos to the Barbie heads.

Forsythe did not simply copy the work verbatim. A verbatim copy of Barbie would be an exact three dimensional reproduction of the doll. Forsythe did not display the en-
tire Barbie head and body in his photographs. Parts of the Barbie figure are obscured or omitted depending on the angle at which the photos were taken and [on] whether other objects obstructed a view of the Barbie figure. [In any event], however, [we have held in previous cases that even] entire verbatim reproductions [may be] justifiable where the purpose of the work differs from the original.

Mattel’s argument that Forsythe could have taken a lesser portion of its work attempts to benefit from the somewhat unique nature of the copyrighted work in this case. Copyright infringement actions generally involve songs, video, or written works. Because parts of these works are naturally severable, the new work can easily choose portions of the original work and add to it. Here, because the copyrighted material is a doll design and the infringing work is a photograph containing that doll, Forsythe, short of severing the doll, must add to it by creating a context around it and capturing that context in a photograph. For our purposes, Forsythe’s use is no different from that of a parodist taking a basic melody and adding elements that transform the work. See Campbell (noting that 2 Live Crew’s rendition of “Pretty Woman” did not approach verbatim copying because, even though 2 Live Crew may have taken the most recognizable portion of the work, it had added “scrapers’’ noises and overlays to the music). In both Forsythe’s use of the entire doll and his use of dismembered parts of the doll, portions of the old work are incorporated into the new work but emerge imbued with a different character.

Moreover, Forsythe was justified in the amount of Mattel’s copyrighted work that he used in his photographs. We do not require parodic works to take the absolute minimum amount of the copyrighted work possible. As the Supreme Court stated in Campbell, “once enough has been taken to assure identification, how much more is reasonable will depend, say, on the extent to which the [work’s] overriding purpose and character is to parody the original or, in contrast, the likelihood that the parody may serve as a market substitute for the original.” We conclude that the extent of Forsythe’s copying of the Barbie figure and head was justifiable in light of his parodic purpose and medium used. This factor also weighs in his favor.

Effect of Use upon Potential Market The fourth factor asks whether actual market harm resulted from the defendant’s use of plaintiff’s protected material and whether “unrestricted and widespread conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact on the potential market” for the original or its derivatives. [Citation of authority omitted.] Mattel argues that Forsythe’s work could lead to market harm by impairing the value of Barbie itself [and] Barbie derivatives such as the “Ken” doll (Barbie’s boyfriend), the “Kira,” “Skipper,” and “Teresa” dolls (Barbie’s friends), . . . and the “Barbie Dream House” (a battery operated . . . dollhouse). [Mattel also argues that Forsythe’s work could lessen the value of] licenses to non-Mattel entities for use of the Barbie name and/or likeness. We address only potential harm [here] because the actual harm to works of Mattel’s licensees was nonexistent.

Because of the parodic nature of Forsythe’s work, . . . it is highly unlikely that it will substitute for products in Mattel’s markets or the markets of Mattel’s licensees. In Campbell, the Court clearly stated: “[A]s to parody pure and simple, it is more likely that the new work will not affect the market for the original in a way cognizable under this factor.” Nor is it likely that Mattel would license an artist to create a work . . . so critical of Barbie. “The unlikelihood that creators of imaginative works will license critical reviews or lampoons of their own productions removes such uses from the very notion of a potential licensing market.” Campbell.

As to Mattel’s claim that Forsythe has impaired Barbie’s value, this fourth factor does not recognize a decrease in value of a copyrighted work that may result from a particularly powerful critical work. As the Court observed in Campbell, “[t]he fact that a parody may impair the market for derivative uses by the very effectiveness of its critical commentary is no more relevant under copyright than the like threat to the original market . . . .” We recognize, however, that critical works may have another dimension beyond their critical aspects that may have effects on potential markets for the copyrighted work. Thus, we look more generally, not only to the critical aspects of a work, but to the type of work itself in determining market harm. See Campbell (looking beyond the critical aspect of 2 Live Crew’s rap rendition of “Pretty Woman” to the derivative market for rap music). Given the nature of Forsythe’s photographs, we decline Mattel’s invitation to look to the licensing market for art in general. Forsythe’s photographs depict nude and often sexualized figures, a category of artistic photography that Mattel is highly unlikely to license.

In a case almost identical to this one, Mattel, Inc. v. Pitt, 229 F. Supp. 2d 315 (S.D.N.Y. 2002), [a federal district court] found no danger of potential market harm to derivative uses. Mattel brought a copyright infringement suit against Susanne Pitt, an artist who sold and designed a line of figures called “Dungeon Dolls.” These dolls were essentially Barbie dolls [but were] physically altered, clothed in sadomasochistic attire, and placed in contexts with like themes. Having found the works sufficiently transformative, the Pitt court concluded that
potential market harm was improbable because Mattel was unlikely to develop or license others to develop a product in the “adult” doll market.

Forsythe’s work could only reasonably substitute for a work in the market for adult-oriented artistic photographs of Barbie. We think it safe to assume that Mattel will not enter such a market or license others to do so. As the Court noted in Campbell, “the market for potential derivative uses includes only those that creators of original works would in general develop or license others to develop.”

Finally, the public benefit in allowing artistic creativity and social criticism to flourish is great. The fair use exception recognizes this important limitation on the rights of the owners of copyrights. No doubt, Mattel would be less likely to grant a license to an artist who intends to create art that criticizes and reflects negatively on Barbie’s image. It is not in the public’s interest to allow Mattel complete control over the kinds of artistic works that use Barbie as a reference for criticism and comment.

Having balanced the four . . . fair use factors, we hold that Forsythe’s work constitutes fair use. His work is a parody of Barbie and highly transformative. The amount of Mattel’s figure that he used was justified. His infringement had no discernible impact on Mattel’s market for derivative uses. Finally, the benefits to the public in allowing such use . . . are great. Allowing Forsythe’s use serves the aims of the Copyright Act by encouraging the very creativity and criticism that the Act protects.

District court’s grant of summary judgment to Forsythe affirmed.

Note: In another portion of the opinion, the Ninth Circuit upheld the district court’s grant of summary judgment to Forsythe on Mattel’s trademark infringement and trademark dilution claims.

Trademarks Trademarks help purchasers identify favored products and services. For this reason, they also give sellers and manufacturers an incentive to innovate and strive for quality. However, both these ends would be defeated if competitors were free to appropriate each other’s trademarks. Thus, the federal Lanham Act protects trademark owners against certain uses of their marks by third parties.3

Protected Marks The Lanham Act recognizes four kinds of marks. It defines a trademark as any word, name, symbol, device, or combination thereof used by a manufacturer or seller to identify its products and distinguish them from the products of competitors. Although trademarks consisting of single words or names are most commonly encountered, federal trademark protection has sometimes been extended to colors, pictures, label and package designs, slogans, sounds, arrangements of numbers and/or letters (e.g., “7-Eleven”), and shapes of goods or their containers (e.g., Coca-Cola bottles).

Service marks resemble trademarks but identify and distinguish services. Certification marks certify the origin, materials, quality, method of manufacture, and other aspects of goods and services. Here, the user of the mark and its owner are distinct parties. A retailer, for example, may sell products bearing the Good Housekeeping Seal of Approval. Collective marks are trademarks or service marks used by organizations to identify themselves as the source of goods or services. Trade union and trade association marks fall into this category. Although all four kinds of marks receive federal protection, this chapter focuses on trademarks and service marks, using the terms mark or trademark to refer to both.

Distinctiveness Because their purpose is to help consumers identify products and services, trademarks must be distinctive to merit maximum Lanham Act protection. Marks fall into five general categories of distinctiveness (or nondistinctiveness):

1. Arbitrary or fanciful marks. These marks are the most distinctive—and the most likely to be protected—because they do not describe the qualities of the product or service they identify. The “Exxon” trademark is an example.

2. Suggestive marks. These marks convey the nature of a product or service only through imagination, thought, and perception. They do not actually describe the underlying product or service. The “Dietene” trademark for a dietary food supplement is an example. Although not as clearly distinctive as arbitrary or fanciful marks, sugge-
3. **Descriptive marks.** These marks directly describe the product or service they identify (e.g., “Realemon,” for bottled lemon juice). Descriptive marks are not protected unless they acquire secondary meaning. This occurs when their identification with a particular source of goods or services has become firmly established in the minds of a substantial number of buyers. “Realemon,” of course, now has secondary meaning. Among the factors considered in secondary-meaning determinations are the length of time the mark has been used, the volume of sales associated with that use, and the nature of the advertising employing the mark. When applied to a package delivery service, for instance, the term overnight is usually descriptive and thus not protectible. It may come to deserve trademark protection, however, through long use by a single firm that advertised it extensively and made many sales while doing so. As will be seen, the same approach is taken concerning deceptively misdescriptive and geographically descriptive marks.

4. **Marks that are not inherently distinctive.** Although these marks are not distinctive in the usual senses of arbitrary nature, fanciful quality, or suggestiveness, proof of secondary meaning effectively makes these marks distinctive. They are therefore protectible if secondary meaning exists. The Supreme Court has held that under appropriate circumstances, product color is a potentially protectible trademark of this type.

5. **Generic terms.** Generic terms (e.g., “diamond” or “truck”) simply refer to the general class of which the particular product or service is one example. Because any seller has the right to call a product or service by its common name, generic terms are ineligible for trademark protection.

The *Survivor Media* case, which appears later in the chapter, contains further discussion of the categories of distinctiveness.

**Federal Registration** Once the seller of a product or service uses a mark in commerce or forms a bona fide intention to do so very soon, she may apply to register the mark with the U.S. Patent and Trademark Office. The office reviews applications for distinctiveness. Its decision to deny or grant the application may be contested by the applicant or by a party who feels that he would be injured by registration of the mark. Such challenges may eventually reach the federal courts.

Trademarks of sufficient distinctiveness are placed on the Principal Register of the Patent and Trademark Office. A mark’s inclusion in the Principal Register (1) is prima facie evidence of the mark’s ownership, validity, and registration (which is useful in trademark infringement suits); (2) gives nationwide constructive notice of the owner’s claim of ownership (thus eliminating the need to show that the defendant in an infringement suit had notice of the mark); (3) entitles the mark owner to assistance from the Bureau of Customs in stopping the importation of certain goods that, without the consent of the mark owner, bear a likeness of the mark; and (4) means

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**Ethics in Action**

Significant ethical issues may arise as part of the clash between intellectual property rights and the claims of those who wish to make use of the protected invention, work, or item. Consider, for instance, these copyright-related questions:

- Is it ethical to use a Grokster-like service to obtain free-of-charge access to copyrighted musical compositions and recordings? Does it make a difference if the user downloads music only for his or her own personal use, as opposed to sharing files with other users? Does it make a difference whether the record companies supposedly have—or have not—made significant profits already on their copyrighted recordings? Is it ethical for record companies to seek, from Internet access providers, the names of their cus-

-tomers who have a significant history of using Grokster-like services? (In thinking about these questions, you may find it useful to review the ethical theories discussed in Chapter 4.)

- If one has a plausible claim to the protection of the fair use doctrine, is it ethical to use portions of another party’s copyrighted work even though the copyright owner has refused to grant permission for the use?

- How would profit-maximizers, utilitarians, and rights theorists, respectively, be likely to assess the lobbying efforts of copyright owners who desired the significant increase in copyright duration that Congress enacted in the Sonny Bono Copyright Term Extension Act of 1998? (Feel free to review Chapter 4’s discussion of the theories referred to in this question.)
that the mark will be incontestable after five years of registered status (as described later).

Even though they are not distinctive, certain other marks may merit placement on the Principal Register if they have acquired secondary meaning. These include (1) marks that are not inherently distinctive (as discussed earlier); (2) descriptive marks (as discussed earlier); (3) deceptively misdescriptive marks (such as “Dura-Skin,” for plastic gloves); (4) geographically descriptive marks (such as “Indiana-Made”); and (5) marks that are primarily a surname (because as a matter of general policy, persons who have a certain last name should be fairly free to use that name in connection with their businesses). Once a mark in one of these classifications achieves registered status, the mark’s owner obtains the legal benefits described in the previous paragraph.

Regardless of their distinctiveness, however, some kinds of marks are denied placement on the Principal Register. These include marks that (1) consist of the flags or other insignia of governments; (2) consist of the name, portrait, or signature of a living person who has not given consent to the trademark use; (3) are immoral, deceptive, or scandalous; or (4) are likely to cause confusion because they resemble a mark previously registered or used in the United States.

Transfer of Rights Because of the purposes underlying trademark law, transferring trademark rights is more difficult than transferring copyright or patent interests. A trademark owner may license the use of the mark, but only if the owner reserves control over the nature and quality of the goods or services as to which the licensee will use the mark. An uncontrolled “naked license” would allow the sale of goods or services bearing the mark but lacking the qualities formerly associated with it, and could confuse purchasers. Trademark rights may also be assigned or sold, but only along with the sale of the goodwill of the business originally using the mark.

Losing Federal Trademark Protection Federal registration of a trademark lasts for 10 years, with renewals for additional 10-year periods possible. However, trademark protection may be lost before the period expires. The government must cancel a registration six years after its date unless the registrant files with the Patent and Trademark Office, within the fifth and sixth years following the registration date, an affidavit detailing that the mark is in use or explaining its nonuse.

Any person who believes that he has been or will be damaged by a mark’s registration may petition the Patent and Trademark Office to cancel that registration. Normally, the petition must be filed within five years of the mark’s registration, because the mark becomes incontestable as regards goods or services with which it has continuously been used for five consecutive years after the registration. A mark’s incontestability means that the permissible grounds for canceling its registration are limited. Even an incontestable mark, however, may be canceled at any time if, among other things, it was obtained by fraud, has been abandoned, or has become the generic name for the goods or services it identifies. Abandonment may occur through an express statement or agreement to abandon, through the mark’s losing its significance as an indication of origin, or through the owner’s failure to use it. A mark acquires a generic meaning when it comes to refer to a class of products or services rather than a particular source’s product or service. For example, this has happened to such once-protected marks as aspirin, escalator, and thermos.

Trademark Infringement A trademark is infringed when, without the owner’s consent, another party uses a substantially similar mark in connection with the sale of goods or services and this is likely to cause confusion concerning their source or concerning whether there is an endorsement relationship or other affiliation between the mark’s owner and the other party. The Survivor Media case, which follows shortly, deals with trademark infringement. It also discusses many of the factors courts consider when determining whether the use is likely to cause confusion. A trademark owner who wins an infringement suit may obtain an injunction against uses of the mark that are likely to cause confusion. In addition, the owner may obtain money damages for provable injury resulting from the infringement, as well as attributable profits realized by the infringing defendant.
The Global Business Environment

An American firm may enter the world market by licensing its product or service to a foreign manufacturer. In exchange for granting a license to the foreign licensee, the American licensor will receive royalties from the sale of the licensed product or service. Usually, the licensed product or service or the name under which it is sold will be protected by American intellectual property law, such as patent, trade secret, copyright, or trademark law. Because American intellectual property law does not protect the property outside the boundaries of the United States, a licensor needs to take steps to ensure that its intellectual property will acquire protection in the foreign nation. Otherwise, the licensor risks that a competitor may appropriate the intellectual property without penalty.

The World Trade Organization has attempted to increase the protection of intellectual property through passage of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Effective in 1995, TRIPS covers patents, trade secrets, copyrights, and trademarks. It sets out minimum standards of intellectual property protection to be provided by each member nation. Some signatory nations, such as the United States, provide greater protection of intellectual property.

Patents and Trade Secrets

A patent filing must be made in each nation in which protection is desired. It is not especially difficult for a firm to acquire parallel patents in each of the major countries maintaining a patent system, because many countries (including the United States), are parties to the Paris Convention for the Protection of Industrial Property. This convention recognizes the date of the first filing in any nation as the filing date for all, but only if subsequent filings are in fact made within a year of the first filing.

When technology is not patentable, either because it is not patentable or because a firm makes a business decision not to patent it, a licensor may control its use abroad under trade secret law. For example, an American firm can license its manufacturing know-how to a foreign manufacturer for use in a defined territory in return for promises to pay royalties and to keep the trade secret confidential.

Copyright

An American firm may license a foreign manufacturer to produce literary, artistic, or musical materials for which the firm holds an American copyright. For example, a computer software development firm may grant a license to a foreign manufacturer of software, or the American owner of copyrights protecting cartoon characters from the television program *The Simpsons* may license a Chinese firm to manufacture Homer, Marge, and Bart dolls.

There is no international copyright that automatically protects a copyrighted work everywhere in the world. Instead, copyright protection for a work must be secured under the laws of the individual nations in which protection is sought. International agreements, however, may smooth the way to copyright acquisition in many countries. The most notable is the Berne Convention, to which the United States and approximately 150 other nations subscribe. The Berne Convention guarantees that a work eligible for copyright in any signatory nation will be eligible for protection in all signatory nations. Although the Berne Convention does not completely standardize the copyright laws of the member nations, it does require each country’s copyright laws to contain certain minimum guarantees of rights.

Another key aspect of the Berne Convention is its principle of national treatment, under which each signatory nation agrees to treat copyright owners from other subscribing countries according to the same rules it applies to copyright owners who are its own residents or citizens. Other international agreements to which the United States is a party operate in generally similar fashion. These include the Universal Copyright Convention and the World Intellectual Property Organization Copyright Treaty.

Trademarks

The holder of an American trademark may license the use of its trademark in a foreign nation. For example, McDonald’s may license a French firm to use the McDonald’s name and golden arches at a restaurant on the Champs-Élysées, or the holder of the Calvin Klein trademark may license a South Korean firm to manufacture Calvin Klein jeans.

An American trademark’s owner, when licensing its product or services abroad, runs the risk of experiencing unwanted and largely uncontrollable uses of its trademark in a foreign market unless it has acquired trademark rights in that nation.

Trademark registrations normally must be made in each nation in which protection is desired. Parallel trademark registrations, however, may be made in compliance with the Paris Convention for the Protection of Industrial Property. Under the Paris Convention, the date of the first filing in any nation is the filing date for all nations, if the subsequent filings are made within six months of the first filing.

The European Union allows a single filing to be effective in all EU nations. An agreement known as the Madrid Protocol also permits a firm to register a trademark in all its signatory nations simultaneously by filing an application for registration in any signatory nation and with the World Intellectual Property Organization (WIPO) in Geneva. The United States joined the Madrid Protocol in 2003.
Survivor Media, Inc. v. Survivor Productions 406 F.3d 625 (9th Cir. 2005)

Survivor Media, Inc., and Peter Deptula, the plaintiffs in the case described below, will be referred to collectively as “Deptula” for convenience purposes. Deptula owns a federal trademark registration on “Survivor,” an amalgamation of the words “surf” and “survivor.” Deptula has used the Survivor mark on his many Hawaiian beach-themed products, which include sunscreen, t-shirts, and surfboards. Of these products, approximately 30 to 50 percent are emblazoned with the Survivor mark alone. The remaining wares sport a tiny Survivor mark along with a third-party logo, such as a college insignia.

Deptula’s mark consists of the term Survivor in block or cursive writing, often accompanied by a stylized graphic such as a sun or a surfer. Deptula has used this mark for a significant number of years and has advertised his products on local television and radio shows, on his website, and at local trade shows. Survivior goods are primarily sold in Hawaii through a local university, a drugstore chain, military outlets, and Hawaiian branches of major retailers. Deptula would like to expand Survivior’s out-of-state presence, but has not made firm plans to do so.

Several years after Deptula coined the Survivior name, the CBS television network and a television programming organization known as Survivor Productions began broadcasting a reality television show called Survivor. The Survivor program deals with the experiences of competitors who seek to survive in extreme outdoor conditions. The show has been a viewer favorite. Survivor Productions created a special Survivor logo for advertising and marketing purposes. As with the Survivor mark, the Survivor mark is emblazoned on a wide range of consumer merchandise, including T-shirts, shorts, and hats. The Survivor mark consists of the word “Survivor” in block script. It is often accompanied by the words “outwit[,] outplay[,] and] outlast,” or is superimposed on a stylized graphic suggesting the location of a particular series. When Survivor’s producers began their use of the Survivor name and mark, they were aware of Deptula’s Survivior mark.

After Survivor began airing on television, Deptula encountered a few persons who wondered whether his business was sponsored by the entities that produced and aired the television program. One retailer and one customer mistook Survivor sunscreen for Deptula’s product, and one trade show attendee thought that Deptula’s business was endorsed by Survivor’s producers. Survivor Productions and CBS never received any complaints from confused customers. A survey commissioned by Survivor Productions revealed that fewer than 2 percent of more than 400 sunscreen purchasers were confused by the two marks. None of Deptula’s customers returned any Survivior goods because of a mistaken belief that the goods they purchased were produced or endorsed by the producers of Survivor. No merchant stopped doing business with Deptula on account of confusion between the product lines.

Deptula filed a trademark infringement lawsuit against Survivor Productions and CBS (referred to collectively as “Survivor Productions”). Holding that Deptula could not establish the “likelihood of confusion” element of a trademark infringement claim, a federal district court granted Survivor Productions’ motion for summary judgment. Deptula appealed to the U.S. Court of Appeals for the Ninth Circuit.

Rawlinson, Circuit Judge

A successful trademark infringement claim under the Lanham Act requires a showing that the claimant holds a protect[ed] mark, and that the alleged infringer’s imitating mark is [likely] to cause confusion, or to cause mistake, or to deceive. The test for “likelihood of confusion” requires the factfinder to determine whether a reasonably prudent consumer in the marketplace is likely to be confused as to the origin of the good or service bearing one of the marks [or as to whether a sponsorship or endorsement relationship or other affiliation exists between the trademark owner and the alleged infringer].

We have recognized two distinct claims in the trademark infringement context: forward confusion and reverse confusion. Forward confusion occurs when consumers believe that goods bearing the junior mark came from, or were sponsored by, the senior mark holder. [The senior mark is the one that went into use first; the junior mark is the one whose use began later.] [If Deptula’s case involved] a forward confusion claim, Deptula [would be contending that] the buying public thought [the owner of] Survivor was the source of, or was sponsoring, the television show and its product line. [In his complaint, however, Deptula has not alleged a forward confusion claim. Instead, Deptula has made allegations of reverse confusion.] [R]everse confusion occurs when consumers dealing with the senior mark holder believe that they are doing business with the junior one. To survive [Survivor Productions’] summary judgment motion on the reverse confusion claim, [Deptula would have to raise] a question of material fact . . . as to whether consumers believed that [the owner of] Survivor was the source of, or was a sponsor of, Deptula’s wares.
To analyze likelihood of confusion, [precedent cases call for us to] consider the following eight factors, [regardless of whether the infringement case involves a forward confusion claim or a reverse confusion claim]: (1) strength of the mark(s); (2) relatedness of the goods; (3) similarity of the marks; (4) evidence of actual confusion; (5) marketing channels; (6) degree of consumer care; (7) the defendants’ intent; and (8) likelihood of expansion. The test is a fluid one and the plaintiff need not satisfy every factor, provided that strong showings are made with respect to some of them.

**Strength of the Mark(s)** The purpose of examining the strength of the plaintiff’s mark is to determine the scope of trademark protection to which the mark is entitled. The more unique the mark, the greater the degree of protection.

Trademarks are divided into five categories. The two strongest sets of marks are “arbitrary” and “fanciful” marks, which trigger the highest degree of trademark protection. Arbitrary marks are common words that have no connection with the actual product—for example, “Dutch Boy” paint. Fanciful marks consist of coined phrases that also have no commonly known connection with the product at hand. Examples of fanciful marks include “Kodak” cameras or “Aveda” skin care products.

“Suggestive” marks do not describe the product’s features but suggest them. The exercise of some imagination is required to associate a suggestive mark with the product. Examples include “Slickcraft” boats or “Air Care,” for a service that maintains medical equipment for administering oxygen.

The fourth category of marks is referred to as “descriptive.” These marks define a particular characteristic of the product in a way that does not require any exercise of the imagination. An example of a descriptive mark is “Honey Roasted” for nuts roasted with honey. Because these marks merely describe a characteristic of the product, they do not receive any trademark protection unless they acquire sufficient “secondary meaning” to create an association between the mark and the [source of the] product.

The final category of marks consists of “generic” marks, which . . . are not entitled to trademark protection because they are the common names of types of products. Examples would include such words as “coffee” (when used to refer to the beverage) and “personal computer” (when used to refer to the desktop variety of computers].

Because Surfivor is a coined term, Deptula contends that it should be treated as a fanciful mark. [T]he mere fact that a mark consists of a coined term [, however,] does not automatically render that mark fanciful. Fanciful marks have no commonly known connotation to the product at hand. By contrast, the term Surfivor is highly evocative of the company’s beach-related products.

However, neither is Surfivor a descriptive or generic mark. Since the term Surfivor requires some imagination to associate it with the company’s beach-related goods, it qualifies as a suggestive mark worthy of some protection. Our determination that Surfivor is a suggestive mark weighs in favor of Deptula.

[Turning now to the strength of the junior mark, the] Survivor series has high public recognition and the producers heavily advertise the show. These circumstances increase the strength of a mark and also weigh in favor of Deptula.

**Relatedness of the Goods** The standard for deciding whether the parties’ goods or services are “related” is whether customers are likely to associate the two product lines. We must also consider whether the buying public could reasonably conclude that the products came from the same source. In this case, although both parties portray an outdoor theme, there is no material evidence in the record that customers are likely to associate the [parties’] products or conclude that the products come from the same source. In fact, the evidence indicates that only one retailer and one customer may have concluded that the products had a common source. Resolution of this factor favors [Survivor Productions].

**Similarity of the Marks** In considering the degree of similarity between the two marks, courts should analyze each mark within the context of other identifying features. We also ask whether the marks are similar in sight, sound, and meaning. The visual subfactor favors [Survivor Productions, which] makes a strong argument that because its Survivor mark is usually accompanied by the distinctive slogan “outwit[, outplay[,] outlast,” or a stylized graphic, the marks are dissimilar.

The “sound” subfactor favors Deptula. Phonetically, Survivor and Surfivor are nearly identical. However, the “meaning” subfactor slightly favors Survivor Productions. The word “surfivor” evokes its commonly understood meaning: one who “continue[s] to exist or live,” Merriam-Webster’s Collegiate Dictionary, 10th ed. (1999), [whereas] “surfivor,” a coined term, connotes a more precise reference to surfing.

Examining the marks in their relative entirety does not reflect the existence of a material issue of fact regarding the similarity of the marks. The subfactors do not weigh in favor of either party.
Evidence of Actual Confusion  Evidence of actual confusion by consumers is strong evidence of likelihood of confusion. In analyzing this factor, we may consider whether merchants and nonpurchasing members of the public, as well as actual consumers, were confused. [T]here is scant evidence of actual confusion in the record. A single retailer and a single customer mistook one Survivor product as Deptula’s. A survey commissioned by Survivor Productions showed an absence of significant confusion. This factor favors Survivor Productions.

Marketing Channels  We must determine whether the parties distribute their goods in the same marketing channels. We agree with the district court that there is minor overlap within local Hawaiian distribution channels. For example, both Survivor and Survivivor merchandise are sold at Hawaiian J. C. Penney stores. This factor slightly favors Deptula.

Degree of Consumer Care  In analyzing the degree of care that a consumer might exercise in purchasing the parties’ goods, the question is whether a reasonably prudent consumer would take the time to distinguish between the two product lines. Our analysis of this factor is complicated by the fact that the parties sell a wide range of goods at different prices.

No clear standard exists for analyzing moderately priced goods, such as nondesigner clothing. With respect to small, inexpensive goods such as sunscreen, the consumer is likely to exercise very little care. Thus, with respect to small items, the “degree of consumer care” factor favors Deptula. However, as to the other items, the “degree of consumer care” factor does not favor either party.

Defendants’ Intent  Survivor’s producers acknowledge being aware of the Survivivor mark before airing their show, but contend that they lacked intent to infringe upon that mark. Even if true, that fact is not dispositive. [Lack of intent to infringe] is no defense to trademark infringement. Further, [because] the alleged infringer adopted his mark with knowledge . . . that it was another’s trademark, resolution of this factor favors Deptula.

Likelihood of Expansion  To resolve this factor, we must determine whether existence of the allegedly infringing mark is hindering the plaintiff’s expansion plans. Deptula has presented no specific evidence related to this factor. Although Deptula expressed interest in expanding his product line, mere speculation is not evidence. Deptula’s complete inability to adduce any concrete evidence of expansion plans tilts this factor in favor of Survivor Productions.

Overall Analysis of the Factors  The distribution of the factors does not raise a material issue of fact regarding likelihood of confusion . . . between the Survivivor and Survivor marks. The district court’s entry of summary judgment in favor of Survivor Productions was appropriate.

District court’s grant of summary judgment for Survivor Productions affirmed.

Trademark Dilution  In recent years, Congress granted owners of certain marks an alternative to the standard claim of trademark infringement. The Federal Trademark Dilution Act (FTDA), which took effect in 1996 and was placed in the Lanham Act as section 43(c), allows the owner of a “famous” mark to seek legal relief when another party’s commercial use of a substantially similar version of the famous mark causes “dilution of [the mark’s] distinctive quality.” Under the FTDA, a mark need not be a registered mark in order to be “famous.” Proof of likelihood of confusion—essential to a claim for trademark infringement—is not required for purposes of this claim of trademark dilution. The FTDA provides that if dilution is established, the owner of the famous mark will normally be entitled only to the standard remedy of an injunction against the defendant’s continued use of the diluting version of the mark. Damages and the infringer’s profits are recoverable by the owner of the famous mark only if the evidence reveals that the defendant willfully sought either to trade on the mark owner’s reputation or to cause dilution of the mark.

For purposes of the FTDA and similar statutes that exist in roughly half the states, dilution occurs if the defendant’s use of the plaintiff’s trademark causes the public, which previously had associated the trademark only with the plaintiff, to associate the trademark with the defendant as well. When this takes place, the trademark’s distinctiveness has been whittled away—i.e., diluted—even if the public recognizes that the plaintiff and defendant are not affiliated and that they provide different products or services. Courts interpreting the FTDA and the state dilution statutes have concluded that dilution may occur in another way: through the defendant’s use of the plaintiff’s trademark in an unwholesome context (normally one suggesting illicit sexual or drug-related connotations). Use of the trademark in such a context may dilute it by tarnishing its reputation.
Piracy and other unauthorized uses of American goods or technology protected by U.S. patent, copyright, and trademark law have become a major problem of American businesses. For example, foreign jeans manufacturers may without authorization place the Levi’s label on their jeans, thereby damaging the business of Levi Strauss & Co. by depriving it of some of the jeans’ market and damaging the value of the Levi trademark, especially if the imported jeans are of inferior quality. This is an example of counterfeit goods—goods that copy or otherwise purport to be those of the trademark owner whose mark has been unlawfully used on the nongenuine goods. Counterfeit goods may also unlawfully appropriate patented technology or copyrighted material. For example, a foreign musical recording company may pirate the latest Eminem album and import thousands of copies of it into the United States without copyright permission.

American firms harmed by the importation of counterfeit goods may obtain injunctions and damages under the Tariff Act of 1930, the Lanham Act, the Copyright Act, and the patent statute. In addition, the Trademark Counterfeiting Act of 1984 establishes civil and criminal penalties for counterfeiting goods. It also allows an American firm to recover from a counterfeiter three times its damages or three times the counterfeiter’s profits (whichever is greater).

Patent, copyright, and trademark piracy is increasing in many parts of the world, especially in developing nations. Some developing nations believe that technology should be transferred freely to foster their economic growth. Consequently, they either encourage piracy or choose not to oppose it.

**Gray market** goods are goods lawfully bearing trademarks or using patents and copyrighted material but entering the American market without authorization. For example, Parker Pen Co. may authorize a Japanese manufacturer to make and sell Parker pens only in Japan. When an American firm imports the Japanese-made Parker pens into the United States, the goods become gray market goods.

While importing gray market goods may violate the contract between the American firm and its foreign licensee, it is not clear in what contexts it violates U.S. importation, trademark, patent, or copyright law. Some courts find a Lanham Act or Tariff Act violation, but other courts do not. The Trademark Counterfeiting Act of 1984 specifically excludes gray market goods from its coverage. The Copyright Act deals with gray market goods in a provision barring the “[i]mportation into the United States, without the authority of the owner of the copyright . . . of copies or phonorecords of a work that has been acquired outside the United States.” Whether the items may lawfully enter the United States depends, therefore, on whether the copyright owner has provided “authority” for this to occur.

**Trademark infringement** principles sometimes govern conflicts between one party’s claim of trademark rights and another’s claim of rights over a World Wide Web domain name. Such disputes sometimes raise dilution issues as well.

In a 1999 enactment, Congress paid special attention to the trademark rights—domain name rights conflict by enacting the Anticybersquatting Consumer Protection Act (hereinafter “ACPA”). The ACPA authorizes a civil action in favor of a trademark owner against any person who, having a “bad faith intent to profit” from the owner’s mark, registers, sells, purchases, licenses, or otherwise uses a domain name that is identical or confusingly similar to the owner’s mark (or would dilute the mark, if it is famous). Among the factors listed in the ACPA as relevant to the existence of bad faith intent to profit are a defendant’s intent to divert consumers from the mark owner’s online location to a site that could harm the mark’s goodwill, and a defendant’s offer to sell the domain name to the mark owner without having used, or intended to use, the domain name in the offering of goods or services.

If the trademark owner wins a cybersquatting action, the court may order the forfeiture or cancellation of the domain name or may order that it be transferred to the mark owner. The successful trademark owner may also recover actual damages as well as the cybersquatter’s attributable profits. Borrowing the statutory damages concept from the Copyright Act, the ACPA provides that in lieu of actual damages plus profits, the trademark owner may elect to recover statutory damages falling within a range of $1,000 to $100,000 per domain name, “as the court considers just.”

Many cases in which a trademark owner complains about another party’s registration of a domain name have been submitted to arbitration, rather than to a court, in recent years. When a party registers an Internet address with the Internet Corporation for Assigned Names and Numbers, the registrant must agree to submit to arbitration in the event that a trademark owner claims a right to the domain name. The World Intellectual Property Organization is a leading provider of arbitrators for this process.
Trade Secrets

The law provides at least two means of protecting creative inventions. Owners of such inventions may go public and obtain monopoly patent rights. As an alternative, they may keep the invention secret and rely on trade secrets law to protect it.

The policies underlying patent protection and trade secrets protection differ. The general aim of patent law is to encourage the creation and disclosure of inventions by granting the patentee a temporary monopoly in the patented invention in exchange for his making it public. Trade secrets, however, are nonpublic by definition. Although protecting trade secrets may stimulate creative activity, it also keeps the information from becoming public knowledge. Thus, the main justification for trade secrets protection is simply to preserve certain standards of commercial morality.

Definition of a Trade Secret

A trade secret can be defined as any secret formula, pattern, process, program, device, method, technique, or compilation of information used in the owner’s business, if it gives its owner an advantage over competitors who do not know it or use it. Examples include chemical formulas, computer software, manufacturing processes, designs for machines, and customer lists. To be protectible, a trade secret must usually have sufficient value or originality to provide an actual or potential competitive advantage. It need not possess the novelty required for patent protection, however.

The North Atlantic Instruments case, which follows shortly, considers factors courts may examine when determining whether a trade secret exists. As some of the factors suggest, a trade secret must actually be secret. A substantial measure of secrecy is necessary, but it need not be absolute. Thus, information that becomes public knowledge or becomes generally known in the industry cannot be a trade secret. Similarly, information that is reasonably discoverable by proper means may not be protected. “Proper means” include independent invention of the secret, observation of a publicly displayed product, the owner’s advertising, published literature, product analysis, and reverse engineering (starting with a legitimately acquired product and working backward to discover how it was developed).

In addition, a firm claiming a trade secret must usually show that it took reasonable measures to ensure secrecy. Examples include advising employees about the secret’s secrecy, limiting access to the secret on a need-to-know basis, requiring those given access to sign a nondisclosure agreement, disclosing the secret only on a confidential basis, and controlling access to an office or plant. Computer software licensing agreements commonly forbid the licensee to copy the program except for backup and archival purposes, require the licensee and its employees to sign confidentiality agreements, call for those employees to use the program only in the course of their jobs, and require the licensee to use the program only in a central processing unit. Because the owner must only make reasonable efforts to ensure secrecy, however, she need not adopt extreme measures to block every ingenious form of industrial espionage.

Ownership and Transfer of Trade Secrets

The owner of a trade secret is usually the person who developed it or the business under whose auspices it was generated. Establishing the ownership of a trade secret can pose problems, however, when an employee develops a secret in the course of her employment. In such cases, courts often find the employer to be the owner if (1) the employee was hired to do creative work related to the secret, (2) the employee agreed not to divulge or use trade secrets, or (3) other employees contributed to the development of the secret. Even when the employee owns the secret, the employer still may obtain a royalty-free license to use it through the shop right doctrine discussed in the section on patents.

The owner of a trade secret may transfer rights in the secret to third parties. This may occur by assignment (in which case the owner loses title) or by license (in which case the owner retains title but allows the transferee certain uses of the secret).

Misappropriation of Trade Secrets

Misappropriation of a trade secret can occur in various ways, most of which involve disclosure or use of the secret. For example, misappropriation liability occurs when the secret is disclosed or used by one who did one of the following:

1. Acquired it by improper means. Improper means include theft, trespass, wiretapping, spying, bugging, bribery, fraud, impersonation, and eavesdropping.

2. Acquired it from a party who is known or should be known to have obtained it by improper means. For example, a freelance industrial spy might obtain one firm’s trade secrets by improper means and sell them to the

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8This definition comes mainly from Restatement (Third) of Unfair Competition § 39 (1995) with some additions from Uniform Trade Secrets Act § 1(4) (1985). Many states have adopted the Uniform Trade Secrets Act (UTSA) in some form. The discussion in this chapter is a composite of the Restatement’s and the UTSA’s rules.
firm’s competitors. If those competitors know or have reason to know that the spy obtained the secrets by improper means, they are liable for misappropriation along with the spy.

3. Breached a duty of confidentiality regarding the secret. If an employer owns a trade secret, for example, an employee is generally bound not to use or disclose it during his employment or thereafter. The North Atlantic Instruments case presents an application of this rule. The employee may, however, utilize general knowledge and skills acquired during her employment.

**North Atlantic Instruments, Inc. v. Haber** 188 F.3d 38 (2d Cir. 1999)

North Atlantic Instruments, Inc., manufactured electronic equipment used on ships, tanks, and aircraft. In August 1994, North Atlantic acquired Transmagnetics, Inc. (TMI), which designed, manufactured, and sold customized electronic devices to a limited number of engineers in the aerospace and high-tech industries. At the time North Atlantic acquired TMI, Fred Haber was a one-third owner of TMI, as well as its president and head of sales. This position allowed Haber to develop extensive client contacts. North Atlantic conditioned its agreement to acquire TMI on Haber’s continuing to work for North Atlantic in a role similar to the role he had played at TMI.

The specialized nature of TMI’s business made the identity of the relatively small number of engineers who required its products especially crucial to its business success. Even in companies employing thousands of engineers, a very small number of those engineers—sometimes only two—might need the technology produced by TMI. The identity and needs of that small number of engineers (i.e., TMI’s client contacts) would have been very difficult for any company to derive on its own. TMI’s list of client contacts was among the intangible assets for which North Atlantic paid when it acquired TMI.

North Atlantic retained Haber as president of its new TMI division. An employment agreement between North Atlantic and Haber ran until July 31, 1997. Its terms obligated Haber not to disclose North Atlantic’s customer lists, trade secrets, or other confidential information, either during his employment by North Atlantic or after that employment ceased. As president of the TMI division, Haber had access through desktop and laptop computers to information about North Atlantic’s technology and customer bases, including lists of clients and information about their individual product needs and purchases. In July 1997, Haber left North Atlantic to join Apex Signal Corp., which manufactured products targeted toward the same niche market as North Atlantic’s TMI division. According to North Atlantic, Apex began targeting North Atlantic’s customer base, with Haber allegedly asking clients he had dealt with at North Atlantic and TMI to do business with Apex. North Atlantic also contended that Haber had taken its confidential client information with him when he joined Apex.

North Atlantic sued Haber and Apex for misappropriation of trade secrets and requested a preliminary injunction. The federal district court referred the injunction request to a magistrate, who conducted an extensive hearing and issued a report recommending issuance of the injunction. The district court adopted the magistrate’s report and preliminarily enjoined Haber and Apex from using the individual client contacts Haber had developed at North Atlantic and TMI. Haber and Apex appealed.

**Straub, Circuit Judge**

To succeed on a claim for the misappropriation of trade secrets under New York law, a party must demonstrate: (1) that it possessed a trade secret, and (2) that the defendants used the trade secret in breach of an agreement, confidential relationship, or duty, or as a result of discovery by improper means.

We first consider whether the District Court properly concluded that North Atlantic’s client list, which contains the identities and preferences of its client contacts, constitutes a protectable trade secret. A trade secret is any formula, pattern, device, or compilation of information which is used in one’s business, and which gives the owner an opportunity to obtain an advantage over competitors who do not know or use it. [Precedent cases indicate that a] customer list developed by a business through substantial effort and kept in confidence may be treated as a trade secret and protected at the owner’s instance against disclosure to a competitor, provided the information it contains is not otherwise readily ascertainable.

The Magistrate Judge concluded that the list of companies to which North Atlantic’s TMI division sold was not a trade secret. By contrast, he determined that the identities of individual contact people with whom Haber dealt while at North Atlantic or TMI were protectable trade secrets. The Magistrate Judge... determined that information on specific contact people was not readily
available to others in the industry. That is, Haber generated the list of specific contact people—the people who required the customized technology produced by TMI and North Atlantic’s TMI division—over the 50 years he had worked in the industry, more than half of which he spent at TMI. The Magistrate Judge relied . . . on the testimony of North Atlantic’s chief executive, who described the needle-in-the-haystack character of the search for the handful of engineers in companies of 100,000 employees who might have a use for one of North Atlantic’s customized products.

The Magistrate Judge [also] concluded that North Atlantic took numerous appropriate measures to prevent unauthorized disclosure of the information contained in its list of client contacts. [These measures included the use of nondisclosure provisions in employment agreements and other access restrictions.] The Magistrate Judge next assessed the value of the list of client contacts and the energy and effort necessary to create it. [He] pointed to the testimony by North Atlantic’s chief executive stating that “in the technology business, the most expensive thing to replicate is your relationships with your customers.” [In addition,] the Magistrate Judge concluded that the client contact list assembled over Haber’s years at TMI and North Atlantic’s TMI division could probably be duplicated, but only with great difficulty.

We hold that the District Court did not err in adopting the Magistrate Judge’s extensive and detailed factual determination that the identity of North Atlantic’s client contacts was a protectable trade secret. Numerous cases applying New York law have held that where, as here, it would be difficult to duplicate a customer list because it reflected individual customer preferences, trade secret protection should apply.

We next consider whether the defendants’ use of a trade secret—specifically the list of client contacts—was in breach of a duty. Both this Circuit and numerous New York courts have held that an agent has a duty not to use confidential knowledge acquired in his employment in competition with his principal. Such a duty exists as well after the employment is terminated as during its continuance . . . and is implied in every contract of employment. [Moreover, the employment agreement between North Atlantic and Haber] provided expressly that Haber had a comparable duty to maintain the confidentiality of TMI’s and North Atlantic’s trade secrets. In this way, [the employment agreement] makes explicit an employee’s implied duties under New York law with respect to confidential information.

[A]t the hearing before the Magistrate Judge, North Atlantic produced a printout of confidential client information from North Atlantic’s customer database, printed by Haber on September 5, 1997—over one month after he had left North Atlantic—and found in Apex’s files. Haber clearly used the information on the day he printed the file. That day, he sent a fax to a contact listed on the form. Testimony at the hearing suggested that it would have been impossible for Haber to have generated the information in the file printed on September 5, 1997 unless he had taken files with him when he left North Atlantic.

Based on the facts in the record, it is clear that Haber violated the duties imposed both by the employment agreement and by New York’s laws. [T]he District Court properly concluded that North Atlantic has demonstrated a likelihood of success on the merits of its misappropriation of trade secrets claim. Finally, [w]e have held [in a prior case] that the loss of trade secrets cannot be measured in money damages because a trade secret, once lost, is, of course, lost forever. We conclude that North Atlantic would be irreparably harmed in the absence of an injunction.

Decision of District Court affirmed.

Remedies for misappropriation of a trade secret include damages, which may involve both the actual loss caused by the misappropriation and the defendant’s unjust enrichment. In some states, punitive damages are awarded for willful and malicious misappropriations. Also, an injunction may be issued against actual or threatened misappropriations.

Commercial Torts

In addition to the intentional torts discussed in Chapter 6, other intentional torts involve business or commercial competition. These torts may help promote innovation by protecting creative businesses against certain competitive abuses. Their main aim, however, is simply to uphold certain minimum standards of commercial morality.

Injurious Falsehood Injurious falsehood also goes by names such as product disparagement, slander of title, and trade libel. This tort involves the publication of false statements that disparage another’s business, property, or title to property, and thus harm her economic interests. One common kind of injurious falsehood involves false statements that disparage either a person’s property rights in land, things, or intangibles, or their quality. The property rights in question include virtually
Elements and Damages

In injurious falsehood cases, the plaintiff must prove that the defendant made a false statement of the sort just described, and that the statement was communicated to a third party. The Jefferson County School District case, which follows below, deals with the sometimes difficult problem of distinguishing between false statements of “fact” and statements of opinion.

The degree of fault required for liability is unclear. Sources often say that the standard is malice, but formulations of this differ. The Restatement requires either knowledge that the statement is false, or reckless disregard as to its truth or falsity. There is usually no liability for false statements that are made negligently and in good faith.

The plaintiff must also prove that the false statement played a substantial part in causing him to suffer special damages. These may include losses resulting from the diminished value of disparaged property; the expense of measures for counteracting the false statement (e.g., advertising or litigation expenses); losses resulting from the breach of an existing contract by a third party; and the loss of prospective business. In cases involving the loss of prospective business, the plaintiff is usually required to show that some specific person or persons refused to buy because of the disparagement. This rule is often relaxed, however, where these losses are difficult to prove.

The special damages that the plaintiff is required to prove are his usual—and virtually his only—remedy in injurious falsehood cases. Damages for personal injury or emotional distress, for instance, are generally not recoverable. However, punitive damages and injunctive relief are sometimes obtainable.

Injuries to Personal Reputation

Injuries to personal reputation are covered by the tort of libel, discussed in Chapter 6. Libelous statements are communicated in writing, whereas injurious falsehoods are communicated in speech. Libel is a more serious wrong, and under certain conditions it may be actionable without the plaintiff proving damages. Libel cases are thus more likely to result in large judgments than are injurious falsehood cases. Libel may also be an effective weapon in legal battles involving serious issues of public concern. Libel law’s absolute and conditional privileges generally apply in injurious falsehood cases. Certain other privileges protect defendants who are sued for injurious falsehood. For example, a rival claimant may in good faith disparage another’s property rights by asserting his own competing rights. Similarly, one may make a good faith allegation that a competitor is infringing one’s patent, copyright, or trademark. Finally, a person may sometimes make unfavorable comparisons between her product and that of a competitor. This privilege is generally limited to sales talk asserting the superiority of one’s own product and does not cover unfavorable statements about a competitor’s product.

Jefferson County School District v. Moody’s Investor’s Services, Inc.

In 1993, the Jefferson County School District decided to refinance part of its bonded indebtedness by issuing refunding bonds. The School District selected two firms other than Moody’s Investor Services, Inc. (hereinafter “Moody”), to rate the bonds, even though it had used Moody’s services in the past.

The School District brought the bonds to market in late 1993. Initially, the bonds sold well. Less than two hours into the sales period, however, Moody published an article about the bonds in its “Rating News,” an electronically distributed information service sent to subscribers and news services. Moody stated in the article that even though it had not been asked to rate the bonds, it intended to assign a rating to the issue subsequent to the sale. The article went on to discuss the bonds and the School District’s financial condition, concluding that “the outlook on the district’s general obligation debt is negative, reflecting the district’s ongoing financial pressures due in part to the state’s [Colorado’s] past underfunding of the school finance act as well as legal uncertainties and financial constraints under Amendment 1.” Amendment 1, a 1992 measure, had changed the Colorado Constitution by requiring voter approval of certain tax increases.
Within minutes after Moody released the article, Dow Jones & Company’s “The Dow Jones Capital Market Reports” issued an electronic communication repeating Moody’s statement about the refunding bonds’ “negative outlook.” According to the School District, Moody’s article adversely affected the marketing of the bonds. Purchase orders ceased, several buyers canceled prior orders, and the School District found it necessary to reprice the bonds at a higher interest rate in order to complete the sale. As a result, the School District alleged, it suffered a net loss of $769,000. Contending the statement in Moody’s article falsely indicated that the School District’s financial condition was not creditworthy, the School District sued Moody for injurious falsehood. The federal district court dismissed the School District’s complaint for failure to state a claim upon which relief could be granted. The court based its ruling on a conclusion that Moody’s statement, rather than being provably false, was an expression of opinion protected by the First Amendment. The School District appealed.

Henry, Circuit Judge

In Milkovich v. Lorain Journal Co., 497 U.S. 1 (U.S. Sup. Ct. 1990), . . . the Supreme Court addressed [an] important limitation on the scope of defamation [and presumably injurious falsehood] law. [T]he Court concluded [that] “a statement of opinion relating to matters of public concern which does not contain a provably false factual connotation will receive full constitutional protection.” Importantly, in reaching this conclusion, the Court rejected the argument that the First Amendment creates “a wholesale defamation exception for anything that might be labeled ‘opinion.’ ” It reasoned that expressions of opinion may often imply an assertion of objective fact:

If a speaker says, “In my opinion, John Jones is a liar,” he implies a knowledge of facts which lead to the conclusion that Jones told an untruth. Even if he states the facts upon which he bases his opinion, if those facts are either incorrect or incomplete, or if his assessment of them is erroneous, the statement may still imply a false assertion of fact. Simply couching such statements in terms of opinion does not dispel these implications; and the statement, “In my opinion Jones is a liar,” can cause as much damage to reputation as the statement, “Jones is a liar.”

Milkovich, 497 U.S. at 18–19.

The [Milkovich] Court then considered the allegedly defamatory statement in the case before it—[a statement] that anyone who had attended a wrestling meet “knows in his heart” that a coach had lied in testifying about the meet at a subsequent hearing. [Because] a reasonable factfinder could conclude that the article implied an assertion that the plaintiff had committed perjury, and because this assertion of perjury was sufficiently factual to be susceptible of being proved true or false, [the Court] concluded that the statement about the coach’s testimony was not an expression of opinion protected by the First Amendment.

[T]he sufficiency of the School District’s allegations may be assessed by considering the first line of inquiry identified in Milkovich: whether a reasonable factfinder could conclude that Moody’s article implied a false assertion of fact about the School District’s financial condition. We begin by examining the allegedly false statement that the School District maintains [was] implied by Moody’s article. [This implied statement]—that the School District was not creditworthy—is no more specific than Moody’s statement about the refunding bonds’ “negative outlook.” [A] statement regarding the creditworthiness of a bond issuer could well depend on a myriad of factors, many of them not provably true or false. [O]ne evaluator of the bonds might point to legal developments [such as] those identified by Moody in concluding that the issuer was not creditworthy. Another evaluator might point to increasing property values in making a more optimistic assessment. The difference in the evaluators’ assessments of the bonds could result from differing views about the relative weight to be assigned to those factors or from other philosophical or theoretical disagreements rather than from one evaluator’s reliance on inaccurate information. [I]n light of its failure to identify a more specific statement, the School District has failed to demonstrate that Moody’s implied statement about its creditworthiness is provably false.

Because the alleged statement about a lack of creditworthiness is so vague, the School District’s interpretation of Moody’s article would be plausible only if it could establish that the article implied some other specific . . . false assertions about the School District’s financial condition. [T]he article’s use of the phrase “ongoing financial pressure” undermines [the School District’s efforts in that regard]. The range of factors that could cause “ongoing financial pressures” is vast, ranging from constitutional and statutory changes, court decisions, property values, inflation, and labor costs to many other factors too numerous to catalogue. In order for the School District to prove that Moody’s article implied an assertion about the factors causing the District’s “ongoing financial pressures,” it would need to identify one or [more] of these many factors. . . . demonstrate that a reasonable reader of Moody’s Rating News could discern those assertions from the general references to the refunding bonds’ “negative outlook” and the School District’s “ongoing finan-
Interference with Contractual Relations In a suit for intentional interference with contractual relations, one party to a contract claims that the defendant’s interference with the other party’s performance of the contract wrongly caused the plaintiff to lose the benefit of that performance. One can interfere with the performance of a contract by causing a party to repudiate it, or by wholly or partly preventing that party’s performance. The means of interference can range from mere persuasion to threatened or actual violence. The agreement whose performance is impeded, however, must be an existing contract. This includes contracts that are voidable, unenforceable, or subject to contract defenses, but not void bargains, contracts that are illegal on public policy grounds, or contracts to marry. Finally, the defendant must have intended to cause the breach; there is usually no liability for negligent contract interferences.

Even if the plaintiff proves these threshold requirements, the defendant is liable only if his behavior was improper. Despite the flexible, case-by-case nature of such determinations, a few generalizations about improper interference are possible.

1. If the contract’s performance was blocked by such clearly improper means as threats of physical violence, misrepresentations, defamatory statements, bribery, harassment, or bad faith civil or criminal actions, the defendant usually is liable. Liability is also likely where the interference was motivated solely by malice, spite, or a simple desire to meddle.

2. If his means and motives are legitimate, a defendant generally escapes liability when his contract interference is in the public interest—for example, when he informs an airport that an air traffic controller habitually uses hallucinogenic drugs. The same is true when the defendant acts to protect a person for whose welfare she is responsible—

for example, when a mother induces a private school to discharge a diseased student who could infect her children.

3. A contract interference resulting from the defendant’s good faith effort to protect her own existing legal or economic interests usually does not create liability so long as appropriate means are used. For example, a landowner can probably induce his tenant to breach a sublease to a party whose business detracts from the land’s value. However, business parties generally cannot interfere with existing contract rights merely to further some prospective competitive advantage. For example, a seller cannot entice its competitors’ customers to break existing contracts with those competitors.

The Carey Station Village case, which follows shortly, explores the issues surrounding a defendant’s privilege to interfere with a contract in order to protect his own interests. In addition, Carey Station Village reveals that liability for interference with contractual relations will not attach to one who is not a “stranger” to the relationship at issue.

4. Finally, competitors are unlikely to incur liability where, as is still often true of employment contracts, the agreement interfered with is terminable at will. The reason is that in such cases, the plaintiff has only an expectancy that the contract will continue, and not a right to have it continued. Thus, a firm that hires away its competitors’ at-will employees usually escapes liability.

The basic measure of damages for intentional interference with contractual relations is the value of the lost contract performance. Some courts also award compensatory damages reasonably linked to the interference (including emotional distress and damage to reputation). Sometimes the plaintiff may obtain an injunction prohibiting further interferences.
Interference with Prospective Advantage  The rules and remedies for intentional interference with prospective advantage parallel those for interference with contractual relations. The main difference is that the former tort involves interferences with prospective relations rather than existing contracts. The protected future relations are mainly potential contractual relations of a business or commercial sort. Liability for interference with such relations requires intent; negligence does not suffice.

The “improper interference” factors weighed in interference-with-contract cases generally apply to interference with prospective advantage as well. One difference, however, is that interference with prospective advantage can be justified if (1) the plaintiff and the defendant are in competition for the prospective relation with which the defendant interferes; (2) the defendant’s purpose is at least partly competitive; (3) the defendant does not use such improper means as physical threats, misrepresentations, and bad faith lawsuits; and (4) the defendant’s behavior does not create an unlawful restraint of trade under the antitrust laws or other regulations. Thus, a competitor ordinarily can win customers by offering lower prices and attract suppliers by offering higher prices. Unless this is otherwise illegal, he can also refuse to deal with suppliers or buyers who also deal with his competitors.

Adams, Judge
The association asserts that the trial court erred in failing to grant [it a] directed verdict [and a judgment notwithstanding the verdict] on the developer’s claim of tortious interference with contractual relations. The association contends that it is not liable because it acted with privilege and because it was not a stranger to the relationship between the developer and the purchasers. [This argument causes us to explore the elements of interference with contractual relations.]

To establish [its] claim of interference with a contract or business relations, [the developer] must prove:

Carey Station Village Homeowners Association, Inc. v. Carey Station Village, Inc. 602 S.E.2d 233 (Ga. App. 2004)

Carey Station Village, Inc., referred to below as “the developer,” purchased real estate near a Georgia lake in 1987. The developer planned to create a large residential subdivision known as Carey Station Village. Although the developer continued to own a number of the lots in the subdivision, it relinquished control of the subdivision to Carey Station Village Homeowners Association, Inc., referred to below as “the association,” in 1994. In 1999, the developer began to sell off some of the lots whose ownership it had retained. These lots had been improved with double-wide, modular homes. The developer provided owner financing for a number of the purchases. Within the first three months of advertising the lots for sale, the developer had sold over one-half of the lots. Later, however, the developer was required to foreclose on 16 of the 21 parcels of property it had sold.

The association brought suit against the developer in 2001 to recover dues and assessments it claimed were owed by the developer in regard to the developer’s remaining lots. The developer and the association had been involved in an earlier lawsuit that resulted in a settlement in which the developer forgave a promissory note from the association, and in exchange, the association released the developer from any liability for association dues or assessments through the year 1999. The developer paid all dues and assessments owing in 2000, but did not make any payments during the subsequent years.

The developer filed a counterclaim asserting that the association committed the tort of interference with contractual relations. According to the developer, actions by the association caused a number of purchasers of the developer’s lots to default on their promissory notes. In addition, the developer contended that the association’s actions adversely affected the developer’s ability to sell its remaining lots at market value. The developer sought to recover damages resulting from the foreclosures referred to above, as well as damages allegedly incurred when the developer’s remaining 27 lots were sold at a price below market value.

The case was tried to a jury in a Georgia court. The trial judge denied the association’s motion for a directed verdict on the developer’s interference with contractual relations counterclaim. The jury found in favor of the association on its claim for unpaid dues and assessments and awarded it $40,527.09. The jury also found in favor of the developer on its counterclaim and awarded it $211,250. The trial judge entered a judgment in favor of the developer in the amount of $170,722.91, for unpaid dues and assessments and awarded it $40,527.09. The jury also found in favor of the developer on its counterclaim. The trial judge denied the association’s motions for new trial and judgment notwithstanding the verdict. The association appealed to the Georgia Court of Appeals.
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(1) improper action or wrongful conduct by the [association] without privilege; (2) the [association] acted purposely and . . . with the intent to injure; (3) the [association] induced a breach of a contractual obligation or caused a . . . third party to discontinue or fail to enter into an anticipated . . . relationship with the [developer]; and (4) the [association’s] tortious conduct proximately caused damage to the developer.


“Privilege” in this context means “a legitimate or bona fide . . . interest of the defendant or a legitimate relationship of the defendant with the contract, which causes the defendant not to be considered a stranger, interloper, or meddler to the contract.” [Case citation omitted.]

In _Culpepper_, . . . we held that the president of a county farm bureau could not be liable for tortious interference with the employment contract between Georgia Farm Bureau Mutual Insurance Company and one of its agents because the president had a legitimate interest in that contract, and thus acted with privilege in requesting the agent’s transfer to another county. [We] reached this conclusion based upon the fact that the agent was required to maintain good relations with the local board of directors of the farm bureau, because the farm bureau had a vested business interest in the success of the insurance company from premiums generated in the county, and [because] the farm bureau’s board also approved the placement of the agent within the county.

Here, the evidence at trial showed that each subdivision lot, including those owned by the developer, was subject to “An Amended and Restated Declaration of Protective Covenants” governing the subdivision. That document was signed by both the developer and the association. Under these protective covenants, the association was granted the power to enforce the covenants and collect dues and assessments. And the Georgia Property Owners’ Association Act gives the covenants the force of law. Thus, each of the warranty deeds executed in connection with the developer’s sale of its lots recites that the property is subject to these protective covenants. Accordingly, the association acted with privilege when it took action as outlined under the protective covenants, such as attempting to collect dues and assessments.

But even if the actions of the association exceeded this privilege, as the developer asserts, the interference [with contractual relations] claim fails because the association is not a stranger to the relationship between the developer and the purchasers. To be liable for interference with contractual or business relations, “one must be a stranger to both the contract and the business relationship giving rise to and underpinning the contract. In other words, . . . parties to a comprehensive interwoven set of contracts [cannot be held] liable for tortious interference with any of the contracts or business relationships.” _Galardi v. Steele-Inman_, 597 S.E.2d 571 (Ga. App. 2004).

Under the circumstances here, we cannot say that the association was a stranger to the contracts or relationship between the developer and the purchasers of the developer’s lots. Rather, they are all parties to a “comprehensive interwoven set of contracts.” [We conclude] that the association cannot be liable for interference with the contracts or business relationship between the developer and the lot purchasers. [Therefore,] the trial court erred in denying the association’s motion for judgment notwithstanding the verdict.

_Trial court’s decision reversed; judgment to be entered in favor of association on developer’s counterclaim._

### Lanham Act Section 43(a)

Section 43(a) of the Lanham Act basically creates a federal law of unfair competition. Section 43(a) is not a consumer remedy; it is normally available only to commercial parties, who usually are the defendant’s competitors. The section creates civil liability for a wide range of false, misleading, confusing, or deceptive representations made in connection with goods or services. Section 43(a)’s many applications include:

1. **Tort claims for “palming off” or “passing off.”** This tort involves false representations that are likely to induce third parties to believe that the defendant’s goods or services are those of the plaintiff. Such representations include imitations of the plaintiff’s trademarks, trade names, packages, labels, containers, employee uniforms, and place of business.

2. **Trade dress infringement claims.** These claims resemble passing-off claims. A product’s trade dress is its overall appearance and sales image. Section 43(a) prohibits a party from passing off its goods or services as those of a competitor by employing a substantially similar trade dress that is likely to confuse consumers as to the source of its products or services. For example, a competitor that sells antifreeze in jugs that are similar in size, shape, and color to a well-known competitor’s jugs may face section 43(a) liability.

3. **Claims for infringement of both registered and unregistered trademarks.**
4. Commercial appropriation of name or likeness claims and right of publicity claims (discussed in Chapter 6).

5. False advertising claims. This important application of section 43(a) includes ads that misrepresent the nature, qualities, or characteristics of either the advertiser’s products and services or a competitor’s products and services. Section 43(a) applies to ads that are likely to mislead buyers even if they are not clearly false on their face, and to ads with certain deceptive omissions. In the American Italian Pasta case, the court discusses the types of statements that may violate section 43(a) and those that may not.

American Italian Pasta Co. v. New World Pasta Co.
371 F.3d 387 (8th Cir. 2004)

American Italian Pasta Co. (American) sells dried pasta under numerous brand names, as does its competitor, New World Pasta Co. (New World). From 1997 to 2000, American manufactured Mueller’s brand (Mueller’s) dried pasta for Best Foods. In 2000, American purchased Mueller’s and took on all packaging, distributing, pricing, and marketing for the brand. Since purchasing Mueller’s, American has placed the phrase “America’s Favorite Pasta” on Mueller’s packaging. On different packages used for the Mueller’s brand, the phrases “Quality Since 1867,” “Made from 100% Semolina,” or “Made with Semolina” accompany the phrase “America’s Favorite Pasta.” The packaging also contains a paragraph in which the phrase “America’s Favorite Pasta” appears. The paragraph (1) states that pasta lovers have enjoyed Mueller’s pasta for 130 years; (2) claims that Mueller’s “pasta cooks to perfect tenderness every time,” because Mueller’s uses “100% pure semolina milled from the highest quality durum wheat”; and (3) encourages consumers to “taste why Mueller’s is America’s favorite pasta.”

New World sent American a demand letter calling for American to cease and desist using the phrase “America’s Favorite Pasta.” Consequently, American filed a declaratory judgment action in federal court and named New World as the defendant. American asked the court to declare that its use of the phrase “America’s Favorite Pasta” did not constitute false or misleading advertising under section 43(a) of the Lanham Act. New World counterclaimed, asserting that American’s use of “America’s Favorite Pasta” violated section 43(a). New World argued that American’s use of the phrase was false or misleading advertising, because, according to a consumer survey commissioned by New World, the phrase conveyed either of two inaccurate impressions: that Mueller’s is a national pasta brand; or that Mueller’s is the nation’s number one selling pasta. American and New World agreed that American’s brands (including Mueller’s) are regional in nature and that a pasta producer other than American and New World sells the most dried pasta in the United States.

American argued that the phrase “America’s Favorite Pasta” did not violate section 43(a) of the Lanham Act because the phrase constituted nonactionable puffery. The federal district court agreed with this argument by American and rejected New World’s contention that the phrase “America’s Favorite Pasta” made a deceptive factual claim. Therefore, the court ruled in favor of American on its request for declaratory relief and against New World on its counterclaim. New World appealed to the U.S. Court of Appeals for the Eighth Circuit.

Riley, Circuit Judge

“America’s Favorite Pasta”—commercial puffery or factual claim? [This issue is critical to American’s complaint for declaratory relief and to New World’s counterclaim.]

A purpose of [§ 43(a) of] the Lanham Act is to protect persons engaged in commerce against false advertising and unfair competition. To establish a false or deceptively misleading advertising claim under § 43(a), New World must establish:

(1) a false statement of fact by [American on its packaging] about its own or another’s product; (2) the statement actually deceived or has the tendency to deceive a substantial segment of its audience; (3) the deception is material, in that it is likely to influence the purchasing decision; (4) [American] caused its false statement to enter interstate commerce; and (5) [New World] has been or is likely to be injured as a result of the false statement.

United Industries Corp. v. Clorox Co., 140 F.3d 1175 (8th Cir. 1998). The failure to establish any element of the prima facie case is fatal.

Under § 43(a), two categories of actionable statements exist: (1) literally false factual claims [of a commercial nature]; and (2) literally true or ambiguous factual claims that “implicitly convey a false impression, are misleading in context, or [are] likely to deceive consumers.” United Industries. [A] category of nonactionable statements [also] exists. Many statements fall into this category, popularly known as puffery. Puffery exists in two general
forms: (1) exaggerated statements of bluster or boast upon which no reasonable consumer would rely; and (2) vague or highly subjective claims of product superiority, including claims of superior qualities or characteristics.

[In contrast with] puffery is a factual claim. A factual claim is a statement that “(1) admits of being adjudged true or false in a way that (2) admits of empirical verification.”

Pizza Hut, Inc. v. Papa John’s Int’l, Inc., 227 F.3d 489 (5th Cir. 2000). To be actionable, the statement must be a “specific and measurable claim, capable of being proved false or of being reasonably interpreted as a statement of objective fact.”

Coastal Abstract Services, Inc. v. First American Title Insurance Co., 173 F.3d 725 (9th Cir. 1999). [As recognized in United Industries.] “false descriptions of specific or absolute characteristics of a product and specific, measurable claims of product superiority” [are actionable factual claims rather than nonactionable puffery]. Generally, opinions are not actionable.

Puffery and statements of fact are mutually exclusive. If a statement is a specific, measurable claim or can be reasonably interpreted as being a factual claim, i.e., one capable of verification, the statement is one of fact. Conversely, if the statement is not specific and measurable, and cannot be reasonably interpreted as providing a benchmark by which the veracity of the statement can be ascertained, the statement constitutes puffery. Defining puffery broadly provides advertisers and manufacturers considerable leeway to craft their statements, allowing the free market to hold advertisers and manufacturers accountable for their statements, ensuring vigorous competition, and protecting legitimate commercial speech.

The phrase “America’s Favorite Pasta,” standing alone, is not a statement of fact as a matter of law. The key term in . . . “America’s Favorite Pasta” is “favorite.” Used in this context, “favorite” is defined as “markedly popular especially over an extended period of time.” Webster’s Third New International Dictionary (1961). [This] definition of “favorite” [leads to] the question of how “popular” is defined. [Webster’s defines] “popular” . . . as “well liked or admired by a particular group or circle.”

By combining the term “favorite” with “America’s,” American claims Mueller’s pasta has been well liked or admired over time by America, a nondefinitive person.

“America’s Favorite Pasta” is not a specific, measurable claim and cannot be reasonably interpreted as an objective fact. “Well liked” and “admired” are entirely subjective and vague. Neither “well liked” nor “admired” provides an empirical benchmark by which the claim can be measured. “Well liked” and “admired” do not convey a quantifiable threshold in sheer number, percentage, or place in a series. A product may be well liked or admired, but the product may not dominate in sales or market share. For example, assume a consumer’s favorite cut of meat is beef tenderloin. If we were to look at the sheer amount of beef tenderloin our hypothetical consumer buys relative to other cuts of meat, beef tenderloin may not have a sizable market share or account for a significant percentage of the amount of money spent on meat.

Therefore, we could not accurately determine whether beef tenderloin was the consumer’s favorite cut of beef based on those benchmarks. The fact is, the consumer may admire beef tenderloin and like it best among beef cuts, but beef tenderloin is too expensive for our consumer to eat often. Likewise, sales volume and total dollars spent on particular pasta brands in the United States may not uncover America’s favorite pasta.

[Our conclusion] might be different if American claimed Mueller’s pasta was the favorite pasta of a specific person or an identifiable group. Such a claim might be a statement of fact. For example, the claim that Mueller’s is Judge Michael Melloy’s favorite pasta would not be puffery. Such a statement is a factual statement that could be verified by simply asking Judge Melloy which pasta brand is his favorite. [American made no advertising claim of this nature, however.]

“America’s Favorite Pasta” also does not imply Mueller’s is a national brand. First, “America’s” is vague, and “America’s,” as well as “America” and “American” used in a similar context, is a broad, general reference. Second, a brand, chain, or product could be America’s favorite without being national. For example, an individual restaurant or restaurant chain may be America’s favorite, but may be located only in one or a few states. Although the restaurant chain may not be available nationally, consumers may prefer the restaurant because of its quality of food, quality of service, atmosphere, or some other attribute. Because “America’s Favorite” depends on numerous characteristics, many of which may be intrinsic, a product (be it a restaurant, grits, or pasta) need not be sold nationally to be America’s favorite.

Having decided the phrase “America’s Favorite Pasta,” standing alone, is not a statement of fact, we consider whether the context in which the phrase is used by American transforms it into a statement of fact. “America’s Favorite Pasta” appears on Mueller’s packaging in two places. First, Mueller’s packaging contains the phrase “America’s Favorite Pasta” in the following paragraph: “For over 130 years, pasta lovers have enjoyed the great taste of Mueller’s. Our pasta cooks to perfect tenderness every time because it’s made from 100% pure semolina milled from the highest quality durum wheat. Taste why Mueller’s is America’s favorite pasta.”
Second, “America’s Favorite Pasta” appears directly above “Quality Since 1867” on some packaging, and directly above “Made from 100% Semolina” or “Made with Semolina” on other packaging (Phrases).

The Paragraph and the Phrases fail to transform “America’s Favorite Pasta” into a statement of fact. The Paragraph does not suggest a benchmark by which the veracity of American’s statement can be verified. The Paragraph generally declares [that] the brand has existed for 130 years [and that] Mueller’s tastes great, cooks to perfect tenderness, and is manufactured from high quality grain. We assume, arguendo, [that] the sentence “Taste why Mueller’s is America’s favorite pasta” incorporates the attributes listed in the Paragraph into America’s claim. Two attributes listed in the Paragraph are subject to verification: Mueller’s is made from 100% pure semolina, and the brand is more than 130 years old. New World does not contend these claims are false. The remaining attributes listed in the Paragraph are unquantifiable and subject to an individual’s fancy.

Notwithstanding the incorporation of these claims into “America’s Favorite Pasta,” the unverifiable attributes attenuate verifiable, and accurate, claims. “Taste why Mueller’s is America’s favorite pasta” suggests [that] all of the attributes listed in the Paragraph are the reason Mueller’s is “America’s Favorite Pasta” and [that] each carries equal weight. The unquantifiable attributes, coupled with two verifiable attributes, do not render the phrase “America’s Favorite Pasta” subject to verification.

Similarly, the Phrases do not convey a benchmark for “America’s Favorite Pasta.” The term “quality” is vague, entirely subjective, and a bare assertion of product superiority. In the context used, “quality” means “inherent or intrinsic excellence of character or type” or “superiority in kind.” Webster’s Third New International Dictionary. The only portion of “Quality Since 1867” that can be verified is “Since 1867,” but “Since 1867” does not provide a methodology or a reason why Mueller’s is America’s favorite. The words simply state, accurately, when the brand was founded. Likewise, while presenting factual claims, the phrases “Made from 100% Semolina” and “Made with Semolina” do not define a methodology by which to ascertain the veracity of American’s claim that Mueller’s is “America’s Favorite Pasta.” The two phrases simply, and correctly, list characteristics of the pasta.

We now consider whether the results of New World’s consumer survey transform the phrase “America’s Favorite Pasta” into a specific, measurable claim. In its survey, New World asked consumers [whether] the phrase “America’s Favorite Pasta” conveyed a meaning. According to New World, 33 percent of those surveyed allegedly perceived the phrase “America’s Favorite Pasta” to mean [that] Mueller’s is the number one brand. Fifty percent of those surveyed allegedly perceived the phrase “America’s Favorite Pasta” to mean [that] Mueller’s is a national brand.

The Seventh Circuit confronted a similar question in Mead Johnson & Co. v. Abbott Laboratories, 201 F.3d 883 (7th Cir. 2000). Having concluded the phrase “1st Choice of Doctors” conveyed [that] more doctors prefer this product over its rivals, the Seventh Circuit considered whether a consumer survey can assign a different meaning to a phrase. Mead Johnson’s survey indicated consumers perceived the phrase “1st Choice of Doctors” to mean a majority of doctors. Concluding the district court erred in using the survey to assign such a meaning, the Seventh Circuit noted [that] “never before has survey research been used to determine the meaning of words, or to set the standard to which objectively verifiable claims must be held.” While acknowledging dictionaries are surveys by people who devote their entire lives to discovering the usage of words, the Seventh Circuit [noted that] “it would be a bad idea to replace the work of these professionals with the first impressions of people on the street.” The Seventh Circuit reasoned that using consumer surveys to determine the benchmark by which a claim is measured would remove otherwise useful words from products and would reduce ads and packaging to puffery.

We agree with the Seventh Circuit. To allow a consumer survey to determine a claim’s benchmark would subject any advertisement or promotional statement to numerous variables, often unpredictable, and would introduce even more uncertainty into the marketplace. A manufacturer or advertiser who expended significant resources to substantiate a statement or forge a puffing statement could be blindsided by a consumer survey that defines the advertising statement differently, subjecting the advertiser or manufacturer to unintended liability for a wholly unanticipated claim the advertisement’s plain language would not support. The resulting unpredictability could chill commercial speech, eliminating useful claims from packaging and advertisements. As the Seventh Circuit noted, [§ 43(a) of] the Lanham Act protects against misleading and false statements of fact, not misunderstood statements.

For the foregoing reasons, we affirm.

District court’s decision affirmed; phrase “America’s Favorite Pasta” held to be nonactionable puffery.
Chapter Eight  Intellectual Property and Unfair Competition

Problems and Problem Cases

1. Huey J. Rivet patented an “amphibious marsh craft” for hauling loads and laying pipeline in swamps. Rivet’s model could “walk” over stumps for extended periods while carrying heavy loads. Later, Robert Wilson, who had once worked for Rivet as a welder, began marketing a similar craft. The craft sold by Wilson differed from the craft described in the specification accompanying Rivet’s patent application in several respects. Overall, though, the Wilson boat performed much the same functions about as effectively as the Rivet craft, and used much the same engineering techniques and concepts to do so. Has Wilson infringed Rivet’s patent?

2. Leslie Kelly is a professional photographer who specializes in photographs of the American West. Kelly has a Web site on which he has placed some of his photographic images. At various times, he has authorized other parties to place certain ones of the images on their Web sites. Ditto.com Corp. operated an Internet search engine under the Ditto.com name. Rather than displaying its results conventionally in the form of text, this search engine displayed its results in thumbnail-size pictures (hereinafter, “thumbnails”). By clicking on one of the thumbnails, the Ditto.com user could then view a larger version of that same picture within the context of the Ditto.com Web page. Kelly discovered that some of his photographs had been included, without his consent, in Ditto.com’s search engine database. He therefore brought a copyright infringement lawsuit against Ditto.com in an effort to enforce the intellectual property rights he claimed in the photographs. Ditto.com’s utilization of Kelly’s photographs really consisted of two uses: (1) the thumbnails; and (2) the larger versions of the same images. What possible defense against liability did Ditto.com attempt to argue? Which use by Ditto.com—the thumbnails or the larger versions of the photographic images—is a better candidate for the protection of this defense, or are the two uses equally strong (or weak) candidates?

3. In 1964, Roy Orbison and William Dees wrote a song titled “Oh, Pretty Woman.” They assigned their rights over the song to Acuff-Rose Music, Inc., the copyright owner at all times relevant to this case. Orbison’s mid-1960s recording of “Oh, Pretty Woman” was a huge hit. In 1989, Luther Campbell, a member of the rap music group known as 2 Live Crew, wrote a song that parodied “Oh, Pretty Woman.” The group sought Acuff-Rose’s permission to use the parody on an album. Despite Acuff-Rose’s denial of permission, 2 Live Crew used the parody on the As Clean As They Wanna Be album. The parody borrowed the first line of lyrics and a very recognizable bass riff from the original song. This bass riff was repeated a few times in the parody. Roughly a year after the 2 Live Crew album was released (and approximately 250,000 copies had been sold), Acuff-Rose sued 2 Live Crew and its record company for copyright infringement. What defense did the defendants raise? Did they succeed with that defense?

4. Qualitex produces pads that dry-cleaning firms use on their presses. Since the 1950s, Qualitex has colored its press pads a shade of green-gold. In 1989, Jacobson Products Co. began producing press pads for sale to dry-cleaning firms. Jacobson colored its pads a green-gold resembling the shade used by Qualitex. Later in 1989, the United States Patent & Trademark Office granted Qualitex a trademark registration for the green-gold color (as used on press pads). Qualitex then added a trademark infringement claim to an unfair competition lawsuit it had previously filed against Jacobson. Qualitex won the case, but the Ninth Circuit Court of Appeals set aside the judgment on the trademark infringement claim. In the Ninth Circuit’s view, the Lanham Act did not allow any party to have color alone registered as a trademark. The Supreme Court granted certiorari. How did the Supreme Court rule on the question whether color is a registrable trademark?

5. Since the 1970s, Nike, Inc., has used the word NIKE and a swoosh design as trademarks in connection with the footwear, clothing items, and related accessories it produces and sells. Both NIKE and the swoosh design are well-known, federally registered trademarks. Since 1989, Nike has used the now-familiar slogan JUST DO IT in connection with the promotion of its products. Michael Stanard began designing and selling T-shirts and sweatshirts that bore the name MIKE and a swoosh design as a take-off on, and parody of, the Nike trademarks. Stanard, who gave the name “Just Did It” Enterprises to this business venture, chose persons named “Mike” (and their relatives) as his target market. He sought to reach these persons by mailing brochures to them. Nike sued Stanard for trademark infringement. Should Nike win the case?
6. E. I. du Pont de Nemours & Co. was building a plant to develop a highly secret unpatented process for producing methanol. During the construction, some of its trade secrets were exposed to view from the air because the plant in which they were contained did not yet have a roof. These secrets were photographed from an airplane by two photographers who were hired by persons unknown to take pictures of the new construction. Did this action amount to a misappropriation of Du Pont’s trade secrets?

7. Time-Life Books published a book titled *Exercising for Fitness*. The book contained a reproduction of the famous Charles Atlas, Ltd., advertisement in which a 97-pound weakling uses Atlas’s Dynamic Tension bodybuilding program to become a real man after a bully kicks sand in his face and that of his girlfriend. The caption accompanying the reproduction told the book’s readers that Atlas’s program is a system of isometric exercises. On the same page, the book warned readers about the extreme dangers of isometric exercises. Atlas sued Time-Life for injurious falsehood. According to Atlas, the book’s caption was false because Atlas’s method was not isometric in nature. Atlas alleged that Time-Life made this false statement with knowledge of its falsity or with an intent to injure Atlas. Atlas contended that the false caption, coupled with the warning about the dangers of isometric exercises, caused it to suffer economic loss in the form of decreased sales and expenses to counteract the falsehood. Atlas’s complaint did not identify any specific lost customers, however. Arguing that the allegations in Atlas’s complaint were not sufficient to state a claim upon which relief could be granted, Time-Life moved to dismiss the complaint. Were Atlas’s allegations sufficient to state a claim against Time-Life?

8. Brookfield Communications, Inc., produced software that provided information to entertainment industry professionals such as film studios, production companies, agents, directors, and actors. In December 1993, Brookfield introduced software that featured entertainment industry information of interest to smaller companies and individual consumers who did not want to purchase Brookfield’s professional-level alternative. Brookfield used MOVIEBUFF as the name of its consumer-level software, whose searchable databases and related applications contained information such as box office receipts, film release schedules, entertainment news, and names of executives, agents, directors, and actors. In 1996, Brookfield attempted to register the World Wide Web domain name moviebuff.com with Network Solutions, Inc., which was then the exclusive registrar of .com domain names. Brookfield learned, however, that this domain name had already been registered (in February 1996) to West Coast Entertainment Corporation, which owned a large chain of video rental stores. Brookfield therefore registered two other domain names in May and September 1996. It launched Web sites bearing those domain names to sell MOVIEBUFF software and offer an online searchable database for which it also used the MOVIEBUFF name. In August 1997, Brookfield applied to the Patent and Trademark Office (PTO) for registration of MOVIEBUFF as a mark used in connection with goods and services. The PTO issued trademark and service mark registrations to Brookfield in September 1998.

Brookfield learned, in October 1998, that West Coast planned to launch a moviebuff.com Web site that would contain a searchable entertainment database similar to Brookfield’s. West Coast claimed that it had registered the moviefull.com domain name nearly two years earlier because the term *movie buff* was part of its federally registered (since 1991) service mark, THE MOVIE BUFF’S MOVIE STORE. After a November 1998 press release made clear that West Coast would in fact launch the moviebuff.com Web site featuring a searchable entertainment database, Brookfield sued West Coast for trademark infringement. Brookfield contended that West Coast’s use of moviebuff.com would infringe Brookfield’s MOVIEBUFF mark. The district court denied Brookfield’s request for a preliminary injunction that would have barred West Coast from using moviebuff.com. The court reasoned that West Coast was effectively the senior user of MOVIEBUFF because of its long-standing service mark (THE MOVIE BUFF’S MOVIE STORE) and because it acquired rights over the moviefull.com domain name before Brookfield’s use of MOVIEBUFF as the name of Brookfield’s Internet-based searchable database. The court also concluded that Brookfield had not established likelihood of consumer confusion. Was the district court’s decision correct?

9. David Hudesman leased commercial property housing the Red Dog Saloon to Don Harris, the saloon’s owner and operator. The lease said that Harris could
assign it to any subtenant or assignee who was financially responsible and would properly care for the premises. It also required that Hudesman consent to such an assignment, but added that this consent could not be withheld unreasonably. After Harris decided to relocate his business, he was contacted by Richard Stone, president of the RAN Corporation. Stone wanted to use the property for an artifacts gallery. Harris and Stone agreed that Harris would assign the lease for $15,000, conditional on Hudesman’s approval.

About this time, a politically influential man named Jerry Reinwand contacted Hudesman about the property. In exchange for Reinwand’s promise to help Hudesman secure government leases for a large building Hudesman owned, Hudesman promised Reinwand that if Harris relocated his business, Reinwand would be assigned the property. Then Hudesman told Harris that he would not consent to Harris’s assignment of the lease to RAN, and that Harris would be “looking at litigation” if he tried to assign the lease to Stone. Therefore, Harris told Stone that the deal was off, returned his $15,000 deposit, and assigned the lease to Reinwand for $15,000.

RAN then sued in an effort to invalidate Reinwand’s lease and enforce its assignment contract with Harris. After RAN settled with several defendants, its main remaining claims were interference with contractual relations and interference with prospective advantage claims against Hudesman. When both parties moved for summary judgment, the trial court held for Hudesman. RAN appealed. Was RAN entitled to win on appeal?

10. Tony Mason created a mixed drink that he named “Lynchburg Lemonade.” The drink consisted of Jack Daniel whiskey, Triple Sec, sweet and sour mix, and 7-Up. Mason, who developed the recipe one evening while seeking to ease a sore throat, served the drink at his restaurant and lounge. The drink became a very big seller for Mason. He informed only a few of his employees of the details of the recipe and instructed each of those employees not to tell anyone else. To prevent customers from learning the recipe, those in charge of mixing the beverage did so in the back of the restaurant and lounge. Winston Randle, a sales representative for Jack Daniel Distillery, drank Lynchburg Lemonade while in Mason’s restaurant and lounge. Although the source of his information was unclear, Randle learned the recipe for the drink at that time. Randle informed his superiors about Lynchburg Lemonade and its recipe. Roughly one year later, Jack Daniel was developing a national promotion campaign for the drink. Mason, who never received compensation for Jack Daniel’s use of the Lynchburg Lemonade recipe, sued Jack Daniel and Randle for misappropriation of a trade secret. Mason won a jury verdict. The defendants appealed. They argued, among other things, that the recipe for Lynchburg Lemonade was not a valid trade secret because it could be fairly easily duplicated and bore some resemblance to drinks classified as part of the “Collins” family of drinks. Was the recipe a valid trade secret?

11. The Clorox Co.’s “Combat” brand was the top-selling roach bait insecticide on the market. United Industries Corp. (hereinafter “UI”) produced “Maxattrax,” a relatively new roach bait insecticide. The statement that Maxattrax “kills roaches in 24 hours” appeared on the product’s packaging. Tests conducted by UI provided support for the “kills in 24 hours” claim. In a legal action filed against Clorox, UI sought a declaratory judgment that this statement did not constitute false advertising. Clorox filed an answer and counterclaim. In the counterclaim, Clorox contended that one of UI’s television commercials for Maxattrax constituted false advertising in violation of Lanham Act section 43(a).

The 15-second Maxattrax commercial to which Clorox objected began with a split-screen depiction of two roach bait products on two kitchen countertops. Although the lighting was dark, the viewer could see the Maxattrax box on the left. On the right was a “Roach Box” that was generally similar to the packaging used by Clorox for its Combat brand. An announcer asked, “Can you guess which bait kills roaches in 24 hours?” As the lighting grew brighter, the camera panned beyond the boxes to reveal, on the Maxattrax side, a clean, orderly kitchen that was uninhabited by roaches. On the other side, however, the kitchen was in a chaotic state, with cupboards and drawers opening, items on the counter turning over, paper towels spinning off a dispenser, and a spice rack convulsing and losing its spices. All of this disorder was the apparent result of a major roach infestation. At the same time, the message “Based on lab tests” appeared in small print at the bottom of the screen. The two roach-bait boxes then reappeared on a split-screen, with computer-animated roaches appearing to kick...
over the Roach Bait box and dance gleefully on it. As the commercial’s final visual showed the Maxattrax box, an announcer stated that “[t]o kill roaches in 24 hours, it’s hot-shot Maxattrax. Maxattrax, it’s the no-wait roach bait.” The final phrase was also displayed in print on the screen. Clorox filed a motion for a preliminary injunction against the commercial. How did the court rule?

Online Research: The United States Copyright Office

Go to the United States Copyright Office Web site, at www.loc.gov/copyright. Then find the answers to these questions:

1. What is the fee for a basic registration of a claim to copyright?
2. Does the Copyright Office maintain a list of works that have fallen into the public domain (i.e., works whose copyright protection has expired)?

Consider completing these 2 case segments from the You Be the Judge DVD after you have read this chapter:

“INTELLECTUAL PROPERTY: Click Here, Get Sued”
“INTELLECTUAL PROPERTY: The Yoga Posture Puzzle”

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