

men as well. If an employer voluntarily provides time off to new mothers, for example, it must extend identical benefits to new fathers. And the Family Medical Leave Act now provides for paternity leave for fathers for employers who qualify under the act.

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# Intellectual Property

Intellectual property is a collection of intangible property rights that we will explore this week, including patents, trademarks, copyrights, and trade secrets.

Since its introduction in 2007, the iPhone has redefined the “smart phone” segment of the wireless phone industry and left its competitors scrambling to catch up. Its sleek lines, gorgeous full-color display, built-in GPS navigation and camera, visual voice mail, and Web surfing capability (either over Wi-Fi or 3G phone networks) made it an instant hit, with thousands of consumers lining up for hours to have their chance to buy one. Its revolutionary business model, where thousands of software programmers could write small programs called “apps” and sell them on the App Store through Apple’s iTunes software, created a win-win-win business model for everyone who touched the iPhone. For software programmers, it was a win because small, untested, and first-time programmers could “strike it rich” by selling thousands of their apps directly to consumers without having to find a software publisher first. For Apple, it was a win because thousands of talented programmers, not on Apple’s payroll, were developing content for their product and enhancing its appeal. Apple also wins because it collects a percentage fee from every app sold on its iTunes store. And finally, consumers win because they have access to all sorts of creative programs to help them do more on their iPhones than simply make a phone call. The business has been a tremendous success for both Apple and AT&T, the exclusive service provider of iPhones in the United States.

There are quite a few companies in the industry that aren’t doing as well, from Nokia to Motorola to Sony Ericsson. If they wanted to see how Apple makes the iPhone, all they’d have to do is buy one and then take it apart to see its components (a process known as reverse engineering). Or they could look at the reverse engineering conducted by iSuppli, an independent market intelligence firm.

iSuppli found out that the bill of material (BOM), or the breakdown of each component Apple purchased to assemble into an iPhone, is roughly \$187.51. The most expensive components are a \$27 16GB flash memory module from Samsung, a \$28.50 display module that includes the iPhone’s glossy 3.5-inch screen, and a \$10 touch screen assembly that includes the touch-sensitive glass on top of the screen.

Apple makes a lot of money selling iPhones. Although the \$199 retail price of the 16GB iPhone 4 suggests that Apple makes only about \$12 profit per phone, in reality the “cost” of the iPhone is much higher than \$199, since each phone is sold with a two-year contract with AT&T service. (the current iPhone X sells for between \$999 and \$1,149.) Industry analysts estimate that AT&T pays Apple approximately \$300 for each iPhone sold with an AT&T plan, in return for Apple agreeing not sell the iPhone through any other phone network (Siegler). The result for Apple is staggering profitability, with a \$1.21 billion profit reported in the first three months of 2009, much of which driven by iPhone sales (Dalrymple). In 2016, Apple had a global revenue of \$215.64 billion. <https://www.statista.com/statistics/265125/total-net-sales-of-apple-since-2004>.

This chart shows, to scale, how outsized Apple’s profits are compared to those of the rest of the industry.

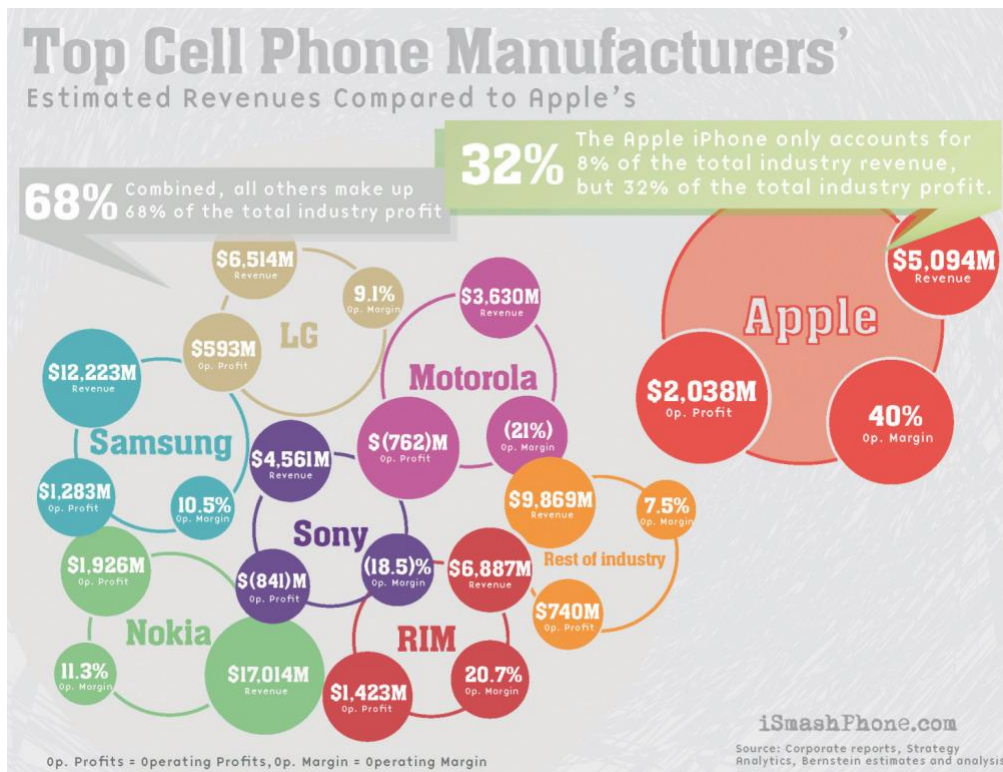


Figure 24 Top Cell Phone Manufacturers Revenue Comparison

Apple's profit margin, at an estimated 40 percent, is nearly double that of its nearest competitor, Research in Motion, maker of the BlackBerry ("A Visualized Look").

If you were a competitor in the cell phone industry, you'd be sorely tempted to try to duplicate Apple's success. After all, if it only costs \$187.51 to make an iPhone, and you could sell it for a \$320 profit, why not just make something that looks a lot like an iPhone? Behold the Air Phone No. 4:



Figure 25 The "Air Phone No. 4"

Released in 2010, the Air Phone is made by a little-known Chinese manufacturer and looks virtually identical to the iPhone 4. It lacks many of the features of the iPhone 4 and does not run on the iPhone's software platform, but at approximately \$150 in online stores, it is proving to be a popular alternative to the iPhone.

The reason that companies like Motorola and Nokia don't simply use the bill of material generated by iSuppli to make their own iPhones, of course, is it's ILLEGAL. The BOM only lists the component costs to Apple; it does not capture the amount of money Apple spent in developing the product through the R&D process. The years of software and hardware development that Apple undertook to create the iPhone involve labor, just as building a skyscraper involves labor. In Apple's case, the product of its labor is not a skyscraper or other tangible property—it is intangible property known broadly as intellectual property, or IP. The law protects Apple's IP just as it protects tangible things from being stolen, so any attempt by a competitor to make an iPhone clone would fail even if the technical ability to do so exists. To be legally sold in the United States, the Air Phone must be different enough from the iPhone that it doesn't actually infringe, or step on, any of Apple's intellectual property rights in the iPhone.

In this section, we'll discuss how the law protects IP. We'll then discuss the four major types of IP protected by the law: patents, trade secrets, trademarks, and copyright. By the end of this section, you'll understand the value that IP plays in a modern economy and the devastating impact that IP infringement (including the downloading of music and movies by college students) has on copyright content holders. You'll also be able to distinguish among the various types of IP protection and how they are similar to, and differ from, each other.

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## **A. Patents**

### *Source of Authority and Duration*

Patent and copyright law are federal, enacted by Congress under the power given by Article I of the Constitution "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Under current law, a patent gives an inventor exclusive rights to make, use, or sell an invention for twenty years. (If the patent is a design patent—protecting the appearance rather than the function of an item—the period is fourteen years.) In return for this limited monopoly, the inventor must fully disclose, in papers filed in the US Patent and Trademark Office (PTO), a complete description of the invention.

## Patentability

### What May Be Patented

The patent law says that “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof” may be patented. 35 U. S. C. Section 101. A process is a “process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.” 35 U. S. C. Section 101. A process for making rolled steel, for example, qualifies as a patentable process under the statute.

A machine is a particular apparatus for achieving a certain result or carrying out a distinct process—lathes, printing presses, motors, sewing machine and the cotton gin are all examples of the hundreds of thousands of machines that have received US patents since the first Patent Act in 1790. A manufacture is an article or a product, such as a television, an automobile, a telephone, or a lightbulb. A composition of matter is a new arrangement of elements so that the resulting compound, such as a metal alloy, is not found in nature. In *Commissioner of Patents v. Chakrabarty*, 444 U.S. 1028 (1980), the Supreme Court said that even living organisms—in particular, a new “genetically engineered” bacterium that could “eat” oil spills—could be patented. The *Chakrabarty* decision has spawned innovation: a variety of small biotechnology firms have attracted venture capitalists and other investors, looking into environmental technology.

There are still other categories of patentable subjects. An improvement is an alteration of a process, machine, manufacture, or composition of matter that satisfies one of the tests for patentability given later in this section. New, original ornamental designs for articles of manufacture are patentable (e.g., the shape of a lamp); however, works of art are not patentable but are protected under the copyright law. New varieties of cultivated or hybridized plants are also patentable, as are genetically modified strains of soybean, corn, or other crops.

### What May Not Be Patented

Many things can be patented, but not (1) the laws of nature, (2) natural phenomena, and (3) abstract ideas, including algorithms (step-by-step formulas for accomplishing a specific task). One frequently asked question is whether patents can be issued for computer software. The PTO was reluctant to do so at first, based on the notion that computer programs were not “novel”—the software program either incorporated automation of manual processes or used mathematical equations (which were not patentable). But in 1998, the Supreme Court held in *Diamond v. Diehr*, 450 U.S. 175 (1981) that patents could be obtained for a process that incorporated a computer program if the process itself was patentable.

A business process can also be patentable, as the US Court of Appeals for the Federal Circuit ruled in 1998 in *State Street Bank and Trust v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998). Signature Financial had a patent for a computerized accounting system that determined share prices through a series of mathematical calculations that would help manage mutual funds. State Street sued to challenge that patent. Signature argued that its model and process was protected, and the court of appeals upheld it as a “practical application of a mathematical, algorithm, formula, or calculation,” because it produces a “useful, concrete and tangible result.” Since the State Street case, many other firms have applied for business process patents. For example, Amazon.com obtained a business process patent for its “one-click” ordering system, a method of processing credit-card orders securely. (But see *Amazon.com v. Barnesandnoble.com*, 239 F.3d 1343 (Fed. Cir. 2001) in which the court of appeals rejected Amazon’s challenge to Barnesandnoble.com using its Express Land one-click ordering system.)

Note, however, that the Federal Circuit more recently re-examined its holding in *State Street* in light of interpretation of patentability under section 101 of the Patent Act by the Supreme Court. In the *Bilski* case, the Federal Circuit held that the “useful, concrete and tangible result” test for patentability is not good law, and instead courts must apply the Supreme Court’s “machine-or-transformation” test. *In re Bilski*, 545 F.3d 943

(Fed. Cir. 2008). “The machine-or-transformation test is a two-branched inquiry; an applicant may show that a process claim satisfies § 101 either by showing that his claim is tied to a particular machine, or by showing that his claim transforms an article.” *Id.* at 961.

### *Tests for Patentability*

Just because an invention falls within one of the categories of patentable subjects, it is not necessarily patentable. The Patent Act and judicial interpretations established certain tests that must first be met. To approve a patent application, the PTO (as part of the Department of Commerce) will require that the invention, discovery, or process be novel, useful, and nonobvious in light of current technology. Perhaps the most significant test of patentability is that of obviousness. The Act says that no invention may be patented “if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.” This provision of the law produced innumerable court cases, especially over improvement patents, when those who wish to use an invention on which a patent has been issued have refused to pay royalties on the grounds that the invention was obvious to anyone who looked.

### *Procedures for Obtaining a Patent*

Previously, the United States (unlike many other countries) granted a patent right to the first person to invent a product or process. In 2011, Congress passed the America Invents Act (AIA), signed into law by President Obama, changed the US patent system to a first to file system (like many European countries). So it is now the first person to file the patent application that is protected. <https://www.stoutadvisory.com/insights/article/us-patent-reform-overview-america-invents-act>.

An inventor cannot obtain a patent automatically; obtaining a patent is an expensive and time-consuming process, and the inventor will need the services of a patent attorney, a highly specialized practitioner. The attorney will help develop the required specification, a description of the invention that gives enough detail so that one skilled in the art will be able to make and use the invention. After receiving an application, a PTO examiner will search the records and accept or reject the claim. Usually, the attorney will negotiate with the examiner and will rewrite and refine the application until it is accepted. A rejection may be appealed, first to the PTO’s Board of Appeals and then, if that fails, to the federal district court in the District of Columbia or to the US Court of Appeals for the Federal Circuit, the successor court to the old US Court of Customs and Patent Appeals.

Once a patent application has been filed, the inventor or a company to which she has assigned the invention may put the words “patent pending” on the invention. These words have no legal effect. Anyone is free to make the invention as long as the patent has not yet been issued. But they do put others on notice that a patent has been applied for. Once the patent is granted, infringers may be sued even if the infringer made the product and offered it for sale before the patent was granted.

In today’s global market, obtaining a US patent is important but is not usually sufficient protection. The inventor may need to secure patent protection in other countries as well. Under the Paris Convention for the Protection of Industrial Property (1883), parties in one country can file for patent or trademark protection in any of the other member countries (172 countries as of 2011). The World Trade Organization’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) established standards for protecting intellectual property rights (patents, trademarks, and copyrights) and provides that each member nation must have laws that protect intellectual property rights with effective access to judicial systems for pursuing civil and criminal penalties for violations of such rights.

### *Patent Ownership*



The patent holder is entitled to make and market the invention and to exclude others from doing so. Because the patent is a species of property, it may be transferred. The inventor may assign part or all of his interest in the patent or keep the property interest and license others to manufacture or use the invention in return for payments known as royalties. The license may be exclusive with one licensee, or the inventor may license many to exploit the invention. One important limitation on the inventor's right to the patent interest is the so-called shop right. This is a right created by state courts on equitable grounds giving employers a nonexclusive royalty-free license to use any invention made by an employee on company time and with company materials. The shop right comes into play only when a company has no express or implied understanding with its employees. Most corporate laboratories have contractual agreements with employees about who owns the invention and what royalties will be paid.

### *Infringement and Invalidity Suits*

Suits for patent infringement can arise in three ways: (1) the patent holder may seek damages and an injunction against the infringer in federal court, requesting damages for royalties and lost profits as well; (2) even before being sued, the accused party may take the patent holder to court under the federal Declaratory Judgment Act, seeking a court declaration that the patent is invalid; or (3) the patent holder may sue a licensee for royalties claimed to be due, and the licensee may counterclaim that the patent is invalid. Such a suit, if begun in state court, may be removed to federal court.

In a federal patent infringement lawsuit, the court may grant the winning party reimbursement for attorneys' fees and costs. If the infringement is adjudged to be intentional, the court can triple the amount of damages awarded (known as treble damages). Prior to 2006, courts were typically granting permanent injunctions to prevent future infringement. Citing *eBay, Inc. v. Merc Exchange, LLC*, 547 U.S. 388 (2006) the Supreme Court ruled that patent holders are not automatically entitled to a permanent injunction against infringement during the life of the patent. Courts have the discretion to determine whether justice requires a permanent injunction, and they may conclude that the public interest and equitable principles may be better satisfied with compensatory damages only.

Proving infringement can be a difficult task. Many companies employ engineers to "design around" a patent product—that is, to seek ways to alter the product to such an extent that the substitute product no longer consists of enough of the elements of the invention safeguarded by the patent. However, infringing products, processes, or machines need not be identical; as the Supreme Court said in *Sanitary Refrigerator Co. v. Winers*, 280 U.S. 30 (1929) "one device is an infringement of another...if two devices do the same work in substantially the same way, and accomplish substantially the same result...even though they differ in name, form, or shape." This is known as the doctrine of equivalents. In an infringement suit, the court must choose between these two extremes: legitimate "design around" and infringement through some equivalent product.

An infringement suit can often be dangerous because the defendant will almost always assert in its answer that the patent is invalid. The plaintiff patent holder thus runs the risk that his entire patent will be taken away from him if the court agrees. In ruling on validity, the court may consider all the tests, such as prior art and obviousness, discussed above and rule on these independently of the conclusions drawn by the PTO.

### *Patent Misuse*

Although a patent is a monopoly granted to the inventor or his assignee or licensee, the monopoly power is legally limited. An owner who misuses the patent may find that he will lose an infringement suit. One common form of misuse is to tie the patented good to some unpatented one—for example, a patented movie projector that will not be sold unless the buyer agrees to rent films supplied only by the manufacturer of the movie projector, or a copier manufacturer that requires buyers to purchase plain paper from it. Another form of patent misuse is a provision in the licensing agreement prohibiting the manufacturer from also making competing products. Although the courts have held against several other types of misuse, the general principle is that the owner may not use his patent to restrain trade in unpatented goods.

## B. Trademarks



Figure 26 McDonald's Trademark

Source: <http://commons.wikimedia.org/wiki/File:RiemArcaden.McD.JPG>.

Look at the image above. It's obviously a McDonald's restaurant, but can you tell where this restaurant is? Is it in a mall or airport? Is it in Trenton, Toronto, or Tokyo (or, as it turns out, Messestadt Riem in Germany)? Without additional information, it may be impossible to tell. And yet, no matter where you are in the world, if you enter this McDonald's restaurant, there are certain standards that you expect. You would expect to find a Big Mac on the menu, perhaps Chicken McNuggets and french fries too. You would expect those menu items to taste the same as they do in your local McDonald's. Perhaps you'd expect a certain level of service from the employees, a certain value proposition for your money, a certain look from the uniform and fixtures, or perhaps a clean restroom. If you walked into this McDonald's restaurant and found out that it was in fact not McDonald's, you might be confused. The ultimate goal of trademark law is to prevent this consumer confusion. To prevent any other restaurant from using the name McDonald's, or from using a logo that looks like a stylized "M," McDonald's can trademark both its name and logo (and a lot of other elements of its brand as well). In this section, we'll examine how trademark law accomplishes this goal.

### *What Is A Trademark?*

A trademark is any kind of name, logo, motto, device, sound, color, or look that identifies the origin of a particular good or service. *US Patent & Trademark Office v. Booking.com*, 140 S. Ct. 2298, 2302 (2020). Something begins to look like a trademark when a consumer identifies it with a particular origin. For example,



someone buying a Diet Coke knows that he or she is getting a carbonated beverage from the Coca-Cola Company. If he or she bought a Diet Cola, on the other hand, there's no association in the mind with any particular company, so it could be from Coca-Cola, Pepsi, or any number of other companies. The key is consumer identification with a specific origin. If a consumer thinks of a class of goods rather than one specific origin, then it's not a trademark. So, for example, when a consumer hears "aspirin," he or she thinks of a class of goods with no particular origin because the word "aspirin" became generic almost a century ago. *Bayer Co. v. United Drug Co.*, 272 F. 505, 510 (S.D.N.Y. 1921). But if a consumer hears "Bayer," he or she thinks of a specific aspirin from a specific source, making "Bayer" a trademark.

A federal law, the Lanham Act, 15 U.S.C. Sections 1051 et. seq., protects trademarks. Unlike copyrights and patents, trademarks can last forever and are not subject to the Constitution's "limited time" restriction. Since the objective of trademark law is to prevent consumer confusion, the public good is best served by allowing companies to maintain their trademarks as long as consumers associate a trademark with a specific origin. The moment they no longer make that association, however, the trademark ceases to exist.

If you are considering marketing as a career, you will become intimately familiar with the concepts related to branding and the value of branding. At its core, marketing involves the science of relating to consumers, telling them an authentic story about your product and service, and satisfying their wants and needs. Having a brand is essential to carrying out this objective, and it can lead to startling profits. The Apple and iPhone brands, for example, are very strong and yield billions of dollars in profits for Apple. Luxury brands are particularly aware of this phenomenon, as often their brand alone can justify pricing far above a similar good.

Gucci stores trades on the value of its brand to command premium prices (and margins) in the marketplace. Brands such as Rolex, Hermes, Rolls-Royce, and Bentley have similar business models. These brands are all trademarks—indeed, all brands are either registered trademarks or are trademark-able because they share the common feature of consumer identification. Be careful, though. "Trademark" and "brand" are not interchangeable terms because not all trademarks are brands.

### *What Can Be Registered as a Trademark?*

So what can be a trademark? Obviously, words can be trademarked. When it comes to trademarks, distinctiveness is good. Therefore, an invented word is the best type of trademark. In 1997, for example, when Stanford grad students Larry Page and Sergey Brin were brainstorming names for their new Internet search engine, they settled on the word "Google," a play on "googol," which means 1 followed by 100 zeroes. They felt the name reflected their goal to organize the staggering amount of information available on the Internet. On the other hand, regular words can also become trademarks, as long as consumers identify them with a particular source. Amazon, for example, is the name of the world's longest river, but it's also the name of an online retailer. Since consumers now identify Amazon.com as an online retailer, the name can be trademarked. Another example is the phrase "You're Fired" when used in a television program. The phrase was made popular by billionaire, now President, Donald Trump and has such lasting recognition now that it's unlikely any other television show could use that phrase as a central part of its theme.

Can sounds be trademarked? Yes! Some sounds are instantly recognizable, such as AOL's "You've Got Mail" and Twentieth Century Fox's movie opening scene. Click the link to explore other trademarked sounds.

<https://www.uspto.gov/trademark/soundmarks/trademark-sound-mark-examples>

Figure 27 describes the degree of protection that is afforded to trademarks when evaluating whether a junior mark infringes on the senior mark. Marks that are generic or merely descriptive enjoy little to no protection under trademark law (absent evidence of secondary meaning for descriptive marks), whereas marks that are suggestive or arbitrary enjoy more protection under trademark law. *Booking.com*, 140 S. Ct. at 2302. Variation in protection levels serves an important purpose by balancing the interests of trademark owners in being able to

distinguish their goods from others with the rights of the public in being able to freely use descriptive words in regular expression.

Marks that are arbitrary – that is, are a made-up word like “Xanax” or are a normal word that in no way describes or suggests any characteristic of the product like “Camel” brand cigarettes – enjoy more protection because these are “inherently distinctive.” *Id.* “Suggestive” marks are ones that allude to some aspect of the product – such as the “Tide” mark associated with laundry detergent and similar laundry products – but do not literally describe the product or service. “Merely descriptive” marks, however, literally describe the product. For example, “Park’N Fly” is a descriptive mark of the parking lot service near a local airport where you, literally, “park” your car “N” then “fly” on the airplane. Merely descriptive marks are not registerable on the principal register at the Trademark Office. 15 U.S.C. § 1052(e).

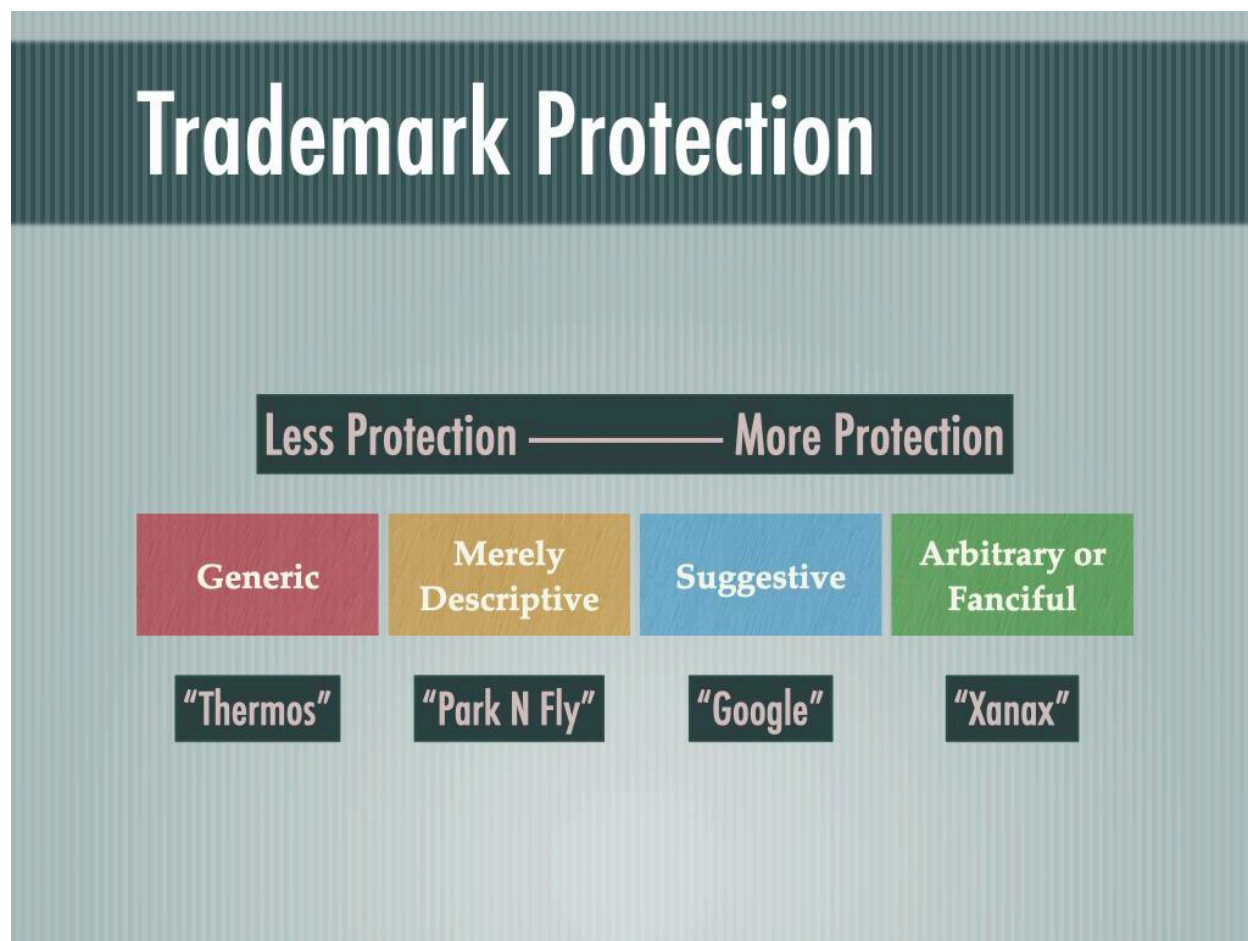


Figure 27 Categories of Trademark Protection

### Trade Dress

Trademarks include words or phrases, and also graphical logos (for example, think of Apple’s stylized “apple” logo with a bite taken out of the apple) that uniquely identify the source of goods. Both such types of trademarks can be registered on the principal register when the mark is used in interstate commerce to identify the source of the goods. 37 C.F.R. § 2.52(b) (special form drawing for registration of a two or three dimensional design).

Trade dress, however, is a separate concept in trademark law. Trade dress is a “symbol” or “device” under the Lanham Act, and as such, may also be registered on the principal register if the trade dress operates to uniquely

identify the source of goods or services with which such device or symbol is associated. 15 USC § 1052; *Walmart Stores, Inc. v. Samara Brothers*, 529 U.S. 205 (2000). Trade dress has been expanded in recent cases to include the “total image and overall appearance” of a product, or the totality of the elements, and “may include features such as size, shape, color or color combinations, texture, graphics.” *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 764 (1992). The *Two Pesos* case involved two competing restaurants that had similar restaurant interior designs. The Supreme Court found that such an interior restaurant design constituted trade dress and could lead to consumer confusion as to the source of the goods sold by each restaurant. *Id.* In *Qualitex*, the Supreme Court held that color alone could constitute protectable trade dress when the color’s use otherwise meets the ordinary legal trademark requirements. *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159 (1995) (use of a special shade of green-gold color on pads used in the dry cleaning press of dry cleaning firms protectable under Lanham Act).



Figure 28 Taco Cabana Restaurant Sign, courtesy of Andreas Praefcke (CC Attrib 3.0)

There are two important barriers to trade dress protection: whether the trade dress is functional, and whether the trade dress is sufficiently distinctive to operate as a trademark. Aspects of most trade dress serves a functional purpose. For example, the package of a product often has a functional purpose to protect the product during shipping or delivery to the end user, and as a result, such packaging could not be protected under the laws of trade dress. The *Qualitex* court held that trade dress is functional when a feature of that trade dress is “essential to the use or purpose of the article, or if it affects the cost or quality of the article.” *Qualitex*, 514 U.S. at 159. The amended Lanham Act also prohibits registration of functional trade dress in 15 U.S.C. § 1052(e)(5).

Whether the trade dress is inherently distinctive can also be a barrier to the trade dress’ protection under the Lanham Act. For product packaging, several factors may be considered by a court in evaluating if the packaging is distinctive: whether the proposed mark is (a) a common or basic shape; (b) unique or unusual in a particular field; (c) a mere refinement of a commonly adopted and well-known form of ornamentation for a particular class of goods viewed by the public as a dress or ornamentation for the goods; or (d) capable of creating a commercial impression distinct from the accompanying words. *Seabrook Foods, Inc. v. Bar-Well Foods, Ltd.*, 568 F.2d 1342, 1344 (C.C.P.A. 1977) (finding that the background blue and green oval on frozen vegetables was not sufficiently distinctive to receive trade dress protection).



Figure 29 Seabrook packaging, courtesy of kiliweb (CC Attrib-Share Alike 3.0)

As discussed further below, trade dress that is not inherently distinctive may still enjoy trademark protection if the trade dress has acquired “secondary meaning,” where “in the minds of the public, the primary significance of a product feature or term is to identify the source of the product rather than the product itself.” *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 851 (1982). The Supreme Court held in the *Two Pesos* case, however, that trade dress that is inherently distinctive need not also be shown to have acquired secondary meaning to receive protection under the Lanham Act from an infringer. *Two Pesos*, 505 U.S. at 769.

### “Secondary Meaning”

However, registration of a trademark is not required for a person to use that trademark in commerce or for that mark to potentially be protected from infringement through a lawsuit (though the Lanham Act provides certain benefits for registrants including the designation of “incontestability” under section 1065). *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992).

Consider the following: plenty of businesses have started out using the owner’s name as the business’ trademark. Generally, surnames are treated as merely descriptive words for purposes of trademark analysis. *Howe Scale Co. v. Wychoff*, 198 U.S. 118 (1905). As a result, such surnames are not initially registerable. For example, if your name is Sam Smith and you called your business Sam Smith, the mark “Sam Smith” cannot be registered under the Lanham Act. However, if your business started growing so that eventually, over time, consumers began to identify “Sam Smith” as your business, then your name has acquired secondary meaning and can be trademarked. Thus, Sam Adams is a trademark for a beer, Ben & Jerry’s is a trademark for ice cream, and Ford is a trademark for a motor vehicle. The Lanham Act specifically recognizes the idea of registering marks that have attained secondary meaning – even marks that otherwise are not protectable as they are merely descriptive ones. *Park ‘N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189 (1985). The *Park ‘N Fly* Court held that a merely descriptive mark that has been registered for five years may also become “incontestable” under section 1065 of the Lanham Act, even though the mark otherwise might enjoy minimal protection without secondary meaning.

Can a sportscaster trademark the phrase “Are you ready to rumble”? Can Paris Hilton trademark the phrase “That’s hot”? As long as the public associates these phrases with a distinctive origin, the answer is yes. Listen to this National Public Radio broadcast for more examples.

<http://www.npr.org/templates/story/story.php?storyId=19227066>

### “Categories of Goods”

Note that when you register a trademark, it’s typically granted for a specific category of goods. The same name can sometimes be used for multiple categories of goods. The name Delta, for example, is a trademark for both an airline and a brand of faucets. Since there is little chance that a consumer will be confused by an airline or faucet brand, trademark law allows these dual registrations. On the other hand, some brands are so strong that they would probably stop registration even for a completely different category of goods. McDonald’s is a good example of this. The McDonald’s trademark is one of the strongest in the world, meaning that it is instantly recognizable. In 1988, for example, hotel chain Quality Inns decided to launch a new line of budget motels called “McSleep.” McDonald’s sued, claiming trademark infringement. McDonald’s claimed that consumers might be confused and believe that McDonald’s owned the hotel chain. A federal judge in the U.S. District Court for the District of Maryland agreed and ordered Quality Inns to change the name of the chain, which it did, to Sleep Inns. *Quality Inns International, Inc. v. McDonald’s Corporation*, 695 F. Supp. 198 (D. Md. 1988).

As the Court noted in the *Quality Inn* case, a variety of factors are used to evaluate whether the consuming public might be confused by a mark as to the source of its associated goods or services. In the 4<sup>th</sup> circuit, this list includes: “(1) the strength or distinctiveness of the mark; (2) the similarity of the two marks; (3) the similarity of the goods or services which the marks identify; (4) the similarity of the facilities used by the parties in conducting their businesses; (5) the similarity of advertising used by the parties; (6) the defendant’s intent; and (7) actual confusion.” *Id.* at 217. The Court also acknowledged the concept of “family of marks” when evaluating McDonald’s claims against Quality Inn, in that McDonald’s had numerous marks with the prefix “Mc,” such as “McChicken” and “McNugget,” which add to the likelihood of confusion about the source of services for the mark, “McSleep.”



Trademarks go beyond simply a company's name or its logo. A color can be trademarked if it's strong enough to create consumer identification. Pink, for example, is trademarked when used for building insulation by Owens Corning. All other insulation manufacturers must use different colors. As noted above, sounds can be trademarked too, such as MGM Studios' "lion's roar." Even a certain "look" can be trademarked if a consumer identifies it with a certain origin. Thus, the distinctive colors, materials, textures, and signage of a Starbucks or T.G.I. Friday's are considered trade dress and cannot be copied. A bottle shape can be considered trade dress, too, such as the shape of a nail polish bottle.



Figure 30 OPI's Nail Polish Bottle

OPI, a nail polish manufacturer, registered this bottle shape with the U.S. Patent and Trademark Office (USPTO) and is suing other manufacturers that use a similarly designed bottle. Interestingly, courts have been reluctant to grant certain smells trademark protection, even though it can be argued that certain fragrances such as Old Spice or CK One are distinctive. Imagine the chaos that would ensue if one company claimed trademark protection for vanilla or strawberry scents—consumers would ultimately be robbed of choice if that were to happen.

A trademark is not limited to a name or logo used to sell goods. If a company provides a service (as opposed to selling goods), it too can receive trademark protection. In this case it's called a service mark. 15 U.S.C. § 1053. Facebook, for example, is a service mark. A trademark can also be used to demonstrate certification meeting certain standards, such as the Good Housekeeping Seal of Approval.

If you study operations management, you'll learn about the International Organization for Standardization (ISO) and its various standards for quality management (ISO 9000) or environmental quality (ISO 14000). The Forest Stewardship Council (FSC) allows its logo to be used on paper products that come from sustainable forests, while certain foods can be labeled "Organic" or "Fair Trade" if they meet certain standards as established by governmental or nongovernmental organizations. Each of these marks is an example of a certification mark. Finally, a mark can represent membership in an organization, such as the National Football League, Girl Scouts of America, Chartered Financial Analyst, or Realtor. These are known as collective marks. The rules that apply to trademarks apply equally to service marks, collective marks, and certification marks. 15 U.S.C. § 1054.



Figure 31 Realtor Trademark

Source: <http://upload.wikimedia.org>

If a color or sound can be trademarked, is there anything that cannot be trademarked? The Lanham Act excludes a few categories from trademark registration, mainly for public policy purposes. Obviously, trademarks will not be granted if they are similar or identical to a trademark already granted. If you're starting a new company, it's a good idea to make sure that not only is a domain name available for your company's name, but that the name isn't already trademarked by someone else. Trademarks also cannot contain the U.S. flag, any government symbol (such as the White House or Capitol buildings), or anything immoral. And, trademarks cannot be merely descriptive. 15 U.S.C. § 1052. (Thus every restaurant is allowed to offer a "Kid's Meal," but only McDonald's can offer a "Happy Meal.")

Whether or not a region can be trademarked (a geographic indicator, or GI) is the subject of some controversy, especially with our trading partners. "Maine Lobster," "Napa Valley Wine," or "Florida Orange Juice," for



example, may indicate to some consumers the origin of a particular lobster or bottle of wine or orange juice, and thus may be of commercial value to distinguish the product from competitors from other regions. For the time being, these foods must come from Maine, California, or Florida to avoid liability under consumer protection statutes for fraud (lying) about their origin. What happens, though, if consumers lose the association with the region? For years, sparkling wine manufacturers in Champagne, France, have fought to prevent this from happening by requiring that only sparkling wine made in the Champagne region be called “champagne.” Now, food producers (especially in the European Union) are seeking similar protection under international trademark law for Feta, Parmesan, Gorgonzola, Asiago, and hundreds of other names.

### *Genericide*

A trademark is valid as long as consumers believe that the mark is associated with a specific producer or origin. If the mark refers to a class of goods instead, then the trademark can no longer exist. This process is called genericide. Many words today once started as trademarks: furnace, aspirin, escalator, thermos, asphalt, zipper, softsoap, cellophane, lite beer, Q-tip, and yo-yo are all examples of trademarks that are now generic and have therefore lost legal protection. *Booking.com*, 140 S. Ct. at 2302. To prevent genericide from occurring, trademark owners must take active steps, often costing millions of dollars, to educate consumers on the importance of using their trademarks properly and to prosecute infringers. For example, when you hear the word “Kleenex,” do you think of a brand of tissue owned by Kimberly-Clark, or do you think of tissues generally? Does “Rollerblade” refer to a brand of in-line skates, or to all in-line skates? In Southern states, does “Coke” refer to a Coca-Cola, or to soft drinks generally? When you run a “Xerox” photocopy, is it on a Xerox photocopier or some other machine? These trademarks, all currently active and worth billions of dollars to their owners, are in danger of becoming generic in the United States. If that happens, the companies will lose control of the marks and the public (and competitors) will be free to use those words just as they use “aspirin” and “yo-yo” today. Xerox has taken many steps to educate the public about its trademark, including running print advertisements in business periodicals. In one of these ads, the text says, “When you use ‘Xerox’ the way you use ‘aspirin,’ we get a headache.”

### *Trademark Infringement and Dilution*

Trademark infringement occurs when someone uses someone else’s mark, either completely or to a substantial degree, when marketing goods or services, without the permission of the mark’s owner. As noted in the *Quality Inn* case above, courts will use a variety of factors to evaluate if a defendant’s use of a particular mark is infringing on the rights of a senior mark. *Quality Inns International*, 695 F. Supp. 198.

Obviously, making your own pair of jeans and slapping a “Levi’s” label on it, or making your own handbag and sewing a “Coach” label on it, constitutes trademark infringement. When Apple first released the iPhone, to its embarrassment it found out that “iPhone” was already a registered trademark belonging to Cisco, another company, for a phone used for placing phone calls over the Internet. To avoid trademark infringement liability, Apple paid Cisco an undisclosed sum to purchase the trademark. Ford found itself in a similar situation when it released a supercar called the “Ford GT.” Ford made a similar racing car in the 1960s called the “GT 40” but lost control of the trademark after production ceased. Unable to reach agreement with the current trademark owners, Ford settled for releasing the new car as simply the “GT.”

The law also permits trademark owners to sue infringers who use their marks to a substantial degree. For example, when Samsung announced its new smart phone, the Black Jack, the makers of the BlackBerry device sued for trademark infringement. When a software company released a product to eliminate unwanted e-mails called “Spam Arrest,” it was sued by Hormel, makers of Spam canned luncheon meat. When a small coffee shop in Syracuse, New York, opened as “Federal Espresso,” the shipping company FedEx filed a trademark infringement claim. *Fed. Express Corp. v. Fed. Espresso, Inc.*, 201 F.3d 168 (2<sup>nd</sup> Cir. 2000).

Even if a trademark owner doesn’t believe a similar use of its mark would lead to any consumer confusion, it can protect its trademark through a concept called dilution. Such was the case when an adult novelty store in

Kentucky opened as “Victor’s Secret” (the owner’s name was Victor). The trademark owners of “Victoria’s Secret” filed a dilution suit in response. Traditionally, trademarks are intended to prevent consumer confusion. Dilution permits a trademark owner to stop usage of a similar word or phrase even if consumers aren’t confused. Under dilution concepts, the trademark owner only needs to show that its mark will be diluted or tarnished in some way.

Dilution is controversial in trademark law. When Congress passed the first dilution law in 1995, the Federal Trademark Dilution Act, many felt that Congress went too far in protecting trademarks, to the detriment of the public and small businesses. For one thing, the Act only protected “famous” trademarks. It also failed to clearly define “dilution,” and what was required for trademark owners to win a lawsuit. Finally, when the Victor’s Secret case reached the Supreme Court, *Moseley v. Secret Catalogue*, 537 U.S. 418 (2003), the Supreme Court issued some clarification. The Court ruled that to win a dilution case, a trademark owner had to show that it had suffered actual economic damage from the dilution, not merely the “likelihood” of dilution. This is a high standard for trademark owners to meet, because it means that they (1) have to wait for the diluting mark to hit the market and be used in commerce and (2) must be able to prove that they suffered economic damage from the diluting mark. Unhappy with the Court’s decision, corporations lobbied Congress to pass the Trademark Revision Dilution Act of 2006, which overturns the *Moseley* case. Now, trademark owners of famous trademarks only need to show a likelihood of dilution before filing a dilution lawsuit.

### *Defenses to Infringement*

Companies or persons accused of trademark infringement have several defenses to rely on. The most obvious is arguing that no infringement occurred because the two marks are sufficiently different that consumers won’t be misled. For example, in 2002 Jeep sued General Motors for infringing on what Jeep called its trademark grill. GM’s Hummer division released the H2 that year, with a similar seven-bar grill. A district court held that there was no trademark infringement because the grills were too dissimilar to cause consumer confusion. Look at the Hummer H2 grill (Figure 32) and the Jeep grill (Figure 33). Do you think there is a chance of consumer confusion?



Figure 32 Hummer H2 Grill



Figure 33 Jeep Grill

Another defense is fair use. The Lanham Act prohibits the use of someone else's trademark when selling goods. It's not uncommon to see various items such as laptop computers, telephones, soda cans, or other foods with their labels covered by stickers or blurred out on television shows and movies because of the trademark law. On the other hand, what if a company wanted to mention a competitor's product to draw a comparison with its own product? This is called comparative advertising, and it's considered fair use. Honda, therefore, is free to claim that its "Honda Accord is better than the Ford Taurus" in its advertising even though Ford and Taurus are both trademarks owned by Ford Motor Company.

The First Amendment also recognizes the use of parody, comedy, or satire as fair use. Comedy skits on television that make fun of, or use, company logos are an example of this fair use. Canadian nonprofit Adbusters organization seeking to advance "a new social activist movement in the info involves making fun of corporations and consumer spending, sponsoring "Buy Nothing Day" as an antidote to the annual holiday spending season. Making fun of corporations also involves spoofing their commercial messages, as the ad illustrates in Figure 34. Although the ad undoubtedly infringes on a trademark, it is considered fair use because of the social commentary and satire behind its message.

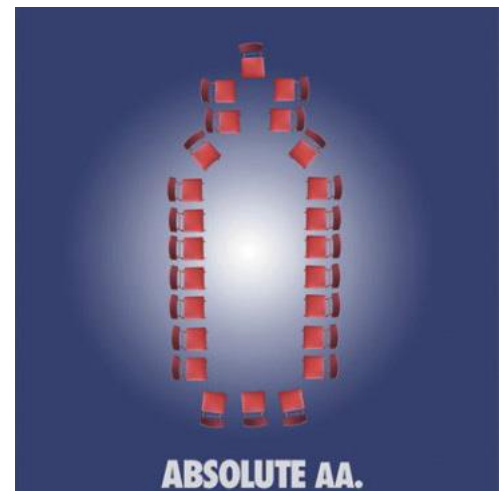


Figure 34 Adbusters Parody of Absolut Vodka  
Print Ads

### Cybersquatting

An interesting aspect of trademark infringement arises through the use of domain names on the Internet. The practice of cybersquatting (or domain name squatting) arises when a company registers a domain name containing a famous trademark in hopes of selling that trademark to its rightful owner for a large profit. The practice arose in the early days of the Internet, when domain name registration took place on a first-come, first-served basis. There is nothing wrong with registering a domain name for a generic word such as "shoes.com," but incorporating a registered trademark into the domain name, for purposes of selling it later, is considered cybersquatting.

Cybersquatting was made illegal in 1999 with the passage of the Anticybersquatting Consumer Protection Act. 15 U.S.C. § 1125(d). The statute creates civil liability when a person has a "bad faith intent to profit from the mark, including a personal name which is protected as a mark" and "registers, traffics in, or uses a domain name" that contains a distinctive mark or contains a famous mark. *Id.* at (1)(A).

Registering a mark in "good faith," however, is not a violation of the statute. *Id.* at (1)(B)(ii) ("Bad faith ...

shall not be found in any case which the court determines that the person believed and had reasonable grounds to believe that the use of the domain name was a fair use or otherwise lawful”). A good example is the domain name registered by Canadian teenager Mike Rowe in 2003. An avid computer user, he registered “mikerowesoft.com” as a domain name. Software giant Microsoft launched legal proceedings against him, claiming violation of the cybersquatting statute and trademark infringement. Rowe’s defense was that the Web site merely reflected his name and his interest in computer programming and software and was being used for that purpose. After heavy negative publicity, Rowe and Microsoft settled the case with Microsoft taking control of the domain. Another example surrounds the Nissan.com domain. Uzi Nissan, a computer storeowner, had owned the domain for years before Nissan Motors attempted to gain ownership of the domain. Since the domain was registered in good faith, no cybersquatting occurred. The First Amendment is also a defense to cybersquatting. Web sites run by consumer activists who seek to criticize or parody companies, such as “fordreallysucks.com” or “fordlemon.com” or “peopleofwalmart.com” are not cybersquatting in spite of their use of trademarks.

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## C. Copyright

The final form of federal intellectual property (IP) protection is *copyright*. Like patents and trademarks, federal law protects copyright. Whereas patents protect processes and inventions, and trademarks protect brands and identity, copyright is designed to protect creativity. It is one of the two types of IP specifically mentioned in the Copyright Clause of the U.S. Constitution. Of course, back then the only works copyrighted would have been songs, art, or works in writing. Today, copyright extends to any form of creative expression, including digital forms.

### *Copyright Protection & Licensing*

If asked to write down four numbers from one to fifty in random sequence, most of us would write four different numbers. The process of picking those numbers requires creativity, so the sequence of the four numbers you write down is copyrighted. Note that the numbers themselves aren’t copyrighted, of course. It’s just the unique sequence that you choose, the expression of your creativity, that is copyrighted. Since computer software is a compilation of binary code expressed in 1 and 0, all software is copyrighted.

On the other hand, sequential page numbers or listings in a phone directory show no creativity and are therefore not copyrightable. Similarly, if a group of students were given a camera and each was asked to photograph the same subject, each student would come up with a different photograph. Each student would frame the subject differently, and that is an expression of creativity. Finally, consider the notes that you take in class for one of your college classes. A group of students could read the same textbook and listen to the same lecture, and come up with different sets of notes. Each work is unique and demonstrates creativity, so each is copyrighted.

A work must be original (not copied) and fixed in a durable medium to be copyrighted. Therefore, if you sing an original song in the shower in the morning and your roommate hears it and records it, the copyright to the song belongs to your roommate, not you. This requirement exists because it would be impossible to prove, without a durable medium, who is the original author of a work. Ideas, by themselves, cannot be copyrighted. If you had an idea for a novel about a boy wizard who goes to a boarding school with his friends and battles evil monsters while growing up, that would not be copyrighted. If you wrote a novel featuring such a story line, however, you would run the risk of violating the copyrighted Harry Potter works.

A similar dispute arose in 2006 after the blockbuster success of Dan Brown's novel, "The Da Vinci Code." Two authors, Michael Baigent and Richard Leigh, claimed the novel infringed on their copyrighted book, "Holy Blood Holy Grail." In their book, the authors theorized that Jesus survived his crucifixion, married Mary Magdalene, and had children. The British judge hearing the case dismissed the claims, holding that the theory was "too general or too low a level of abstraction to be capable of protection by copyright law." *Baigent v. Random House Group*, [2007] All ER (D) 456 (Mar) <http://www.scribd.com/doc/2473519/da-vinci-code-ruling-baigent-v-rhg-0406/>.

A copyrighted work is automatically copyrighted upon its creation. Unlike patents and trademarks, which must go through an expensive and rigorous application and approval process with the government, authors do not need to send their work to the government for approval. Although it's a good idea to write "Copyright" or place a © symbol on the work, such formalities are not required for protection under the Copyright Act. However, registration of one's copyright is strongly encouraged, as the registration is a pre-requisite for bringing an action for statutory damages or attorney's fees resulting from infringement. 17 U.S.C. § 412.

The rights of authors are found in section 106 and 106A of the Copyright Act, and include the exclusive rights of copying, distributing, publicly performing, publicly displaying and preparing derivative works. Congress added section 106A in 1990 to provide for certain "moral rights" of authors of "visual works of art" such as paintings, drawings, and small runs of lithographs and photographs. These "moral rights" included the right of attribution – that is, a requirement that the author's name appear in association with the work – and also a right to prevent mutilation or destruction of a visual work.

Copyright protection lasts for seventy years after the death of the author. If there is more than one author, the copyright expires seventy years after the death of the last surviving author. If a company, such as a publisher, owns copyrighted work, the copyright expires ninety-five years from the date of publication, or one hundred twenty years from the date of creation, whichever comes first. After a copyright expires, the work falls into the public domain. The works of Shakespeare, Bach, and Beethoven, for example, are in the public domain. They may be freely recorded, performed, or modified without permission. If you were to record yourself reciting Shakespeare's "To be or not to be" speech from Hamlet, that recording is copyrighted, as a new creative expression, even though the underlying work (Hamlet) is in the public domain. Classical music recordings are similarly copyrighted under the same concept.

The owner of a copyright may allow members of the public to view or use a copyrighted work, for free or for a fee. This use is contained in a copyright license. A license is essentially permission from the copyright holder to violate the copyright, within the terms of the license. When you purchase a physical book or CD or DVD, for example, the copyright license allows you to view the movie, listen to the music, or read the book, in private. The license does not allow you to show the movie in class to a broad audience, or to record the music into your computer and then modify it, or to run photocopies of the book to give away or sell. These rights of reproduction, exhibition, and sale are not part of the license you received and are reserved by the copyright holder. Of course, you may purchase those rights if you wish, but they will probably cost a lot more than the price of the book or disc. Some organizations advocate the creation of a common license that authors can easily refer to if they wish to distribute their work easily. The *General Public License (GPL)* for software and *Creative Commons (CC)* license for text and media are well-known examples.

One right that you do have, however, in spite of any language in the license, is the right of *first sale*. Essentially this means that as the owner of a physical copy is free to resell that work to others, without any limitation by the author. This right of first sale, codified in section 109 of the Copyright Act, was the subject of litigation involving a student's purchase and resale of textbooks abroad, even though such books purported to limit these sales outside of the geographic area they were purchased. The Supreme Court held that such restrictions were pre-empted by the first sale doctrine in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).



Licenses in the digital arena can be very restrictive if you purchase digital media. Copyright holders may use schemes such as *Digital Rights Management (DRM)* to limit your ownership rights in digital media. DRM limits the number of copies and devices a digital file can be transferred to, and in some cases even permits the copyright holder to delete the purchased work. Amazon.com recently deleted digital George Orwell books from owners who had purchased the works for their Kindle reading device without any prior notification. This would have been impossible if the books were in a physical form. Although Amazon.com was within its rights to do so, the public outcry that followed made Amazon.com promise to not engage in such behavior again in the future.

### *Copyright Infringement*

Copyright infringement occurs when someone uses a copyrighted work without permission or violates the terms of a copyright license. For example, if a classmate takes your class notes without your permission and makes photocopies of them, the classmate infringed on your copyright. It's also copyright infringement if you take someone else's work and simply repackage it as your own. This happened recently to Harry Potter author J. K. Rowling. Her books created a huge fan following, and many fans gather online to discuss the Potter series. One such site is the Harry Potter Lexicon, run by Steve Vander Ark, a former school librarian. The site serves as an encyclopedia to the Harry Potter world, with reference notes on characters, places, spells, and other details. When Vander Ark announced plans to publish the contents of the Lexicon in a book format, J. K. Rowling sued, claiming copyright infringement. The judge agreed and ordered the Lexicon rewritten so that it uses less material from the copyrighted work.

Copyright infringement also occurs when you assist someone in violating a copyright, or create a device that assists in violating a copyright. Thus, Web sites such as the former Napster and Grokster, which existed solely for the purpose of facilitating illegal downloading of music, were held to be infringers even though the Web sites themselves didn't violate any copyrights. Similarly, if you make digital media available for download for others, you are not engaged in illegal downloading but still liable for contributory copyright infringement. The recording industry, which is battling for its very survival in a new file-sharing world, pursues these cases aggressively. In June 2009, a court in Minnesota ordered Jammie Thomas to pay \$80,000 per song for making twenty-four songs available for download, for a total fine of \$1.92 million. *Capitol Records, Inc. v. Thomas-Rassett*, 799 F.Supp.2d 999 (D. Minn. 2011) (the district court reduced the total damages to \$54,000, but on appeal, the 8<sup>th</sup> Circuit increased the award to \$222,000 based on a jury verdict in prior litigation before the trial court on this issue, 692 F.3d 899 (2012)). In September 2009, the industry won a \$675,000 verdict against a college student in Massachusetts for file sharing thirty songs, which was upheld on appeal in *Sony BMG v. Tenenbaum*, 719 F.3d 67 (1<sup>st</sup> cir. 2013). Devices that can be used for purposes other than violating copyrights (such as photocopiers, video/DVD burners, and peer-to-peer networks used for sharing research) are not considered infringing devices.

### *Fair Use Defense*

Copyright law makes a distinction between "fair" use and "infringing" use of a copyrighted work. A fair use includes copying a work for purposes of commentary, criticism, news reporting, teaching, or research. Just because a work is used in a news article or in a classroom, however, does not make its use fair. The law provides four factors that courts must consider in determining whether or not the use is fair. First, the court must consider the purpose and character of the use. Is it for educational purpose, or for making a profit? Second, the court must consider the nature of the copyrighted work. Is the work part of the "core" of the intended protection that copyright provides? Third, the court must consider the amount and substantiality of the portion used. This is an important factor—it's one thing for your professor to copy an excerpt from a journal or book for distribution in class (probably fair) and another to copy the entire journal or book (probably infringing). Finally, the court must consider the effect of the use on the potential market for the copyrighted work. If the use is considered fair, what would it do to the market for the copyrighted work? For example, if copying an entire textbook is fair, it would probably eliminate the market for new textbooks. 17 U.S.C. § 107.